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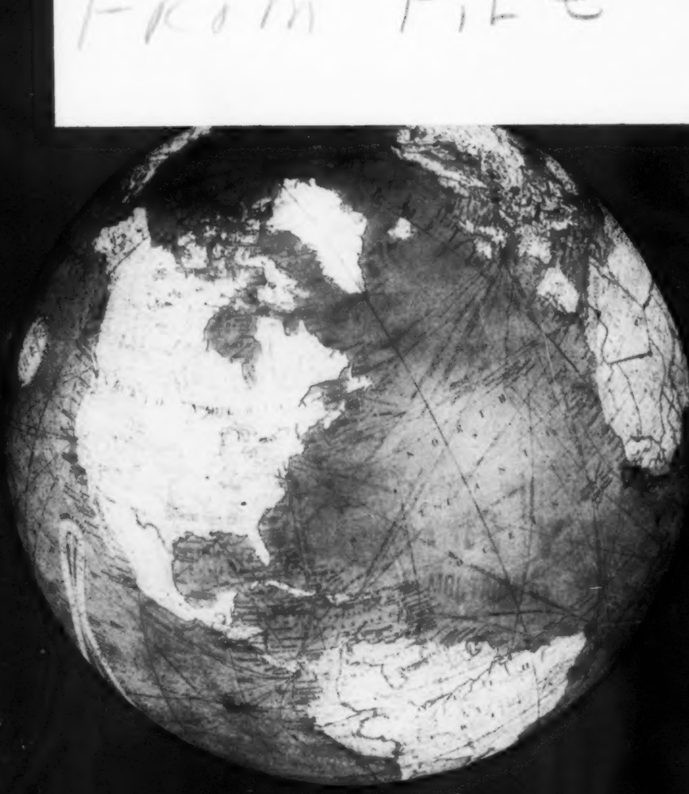

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LYBRAND JOURNAL

The Goals and Tools of Cost Accounting

By John J. Fox

The development of managerial cost accounting, more than any other factor, has elevated the accountant to the top councils in our society. The accountant has grown to full stature in management with the engineer, the salesman, the production man. All must collaborate in managing our factories, farms, mines and distribution systems. The measure of their collective success is our gross national product and, eventually, our standard of living.

The contribution of individual companies to the national well-being is measured in terms of profit. Profit is measured in turn by the effectiveness with which the individual companies use their invested capital, or the rate of return on the amounts of capital invested. With this objective in mind, the ultimate goal of managerial cost accountants is to use the tools of their profession to assist their companies in achieving a maximum profit return on the capital invested.

The tools of the skilled managerial cost accountant and how they are used to achieve the ultimate goal of maximum profit on capital invested is the primary objective of this article. These tools are available to all accountants. The skill with which they are used depends on how well they are understood and how frequently they are used.

Return on Investment—The Square

The return on investment concept is the first and most basic of the accountant's tools. It is also one of the most effective. Maximizing the return on capital is the end objective. The accountant must continuously measure and appraise business

activities in terms of their end financial results just as the carpenter continuously "squares up" his lines to complete a building. The skilled cost accountant keeps the financial objective of business activity constantly in focus. Making a profit is the objective—not sales, not production, not product quality. All of these are essential to profit but sometimes create conflicting objectives. The salesman will demand increases in the advertising budget to stimulate sales; the production man will want to schedule full production to minimize costs; the engineer will want product changes to improve quality. The cost accountant must be the balance wheel coordinating all of these efforts to produce the maximum return. Return on investment is the tool he uses to measure the performance of managers, or to make decisions on investing funds in new products, plants and equipment. It is also an important tool in deciding whether to make or buy component parts.

Forward Planning—The Sketch

Forward planning, the outlining of future courses of action, is the second tool in the accountant's kit. Just as the architect first sketches the proposed structure, the accountant can, and should, first project broad future courses of action for his company. The financial viewpoint is far more effective when applied to shaping future events than only in measuring the past.

Long-range forecasting for periods of five or ten years is used in most larger companies and many progressive smaller ones. Population growth and shifts are carefully studied as a basis for locating new plants or enlarging existing facilities. Trends in consumer habits and preferences and new product developments are studied and used in planning product development and capital requirements. Dividend policies are established and plans are made for accumulating additional amounts of capital when required.

Operating Budgets—The Blueprints

Operating budgets are the blueprints of the accountant's detail plans. They are the link between the long-range forecasts and the historical accounting records. Short-term or annual forecasts are essential to even the smallest business. Production must be planned to meet sales requirements and maintain minimum inventories. Procurement must be coordinated with production. Working capital needs must be ascertained and adequate financing provided.

Sales Forecasts—The Crystal Ball

The keystone of the budget is the sales forecast. The sales manager and the accountant must gaze into the crystal ball, as it were, and predict the future. Historical sales results, market potential and economic conditions are studied and evaluated. Forecasts should be made for individual products or product groups and should be expressed in both units and dollars. Where volume is susceptible to price fluctuations, the effect of price on volume should be studied and a pricing policy established to bring the best financial return. Since the profit objective is more closely related to performance than to planning, the sales budget should be reduced to quotas for districts, territories or salesmen and performance reports regularly prepared. Sales incentives should be developed to encourage performance.

Cost Reduction—The Chisel

While the budgetary control system is primarily a planning tool in the hands of the accountant, it can be converted into an effective tool for the control of costs and a chisel for reducing costs. The planning function implies a predetermination of acceptable or normal costs. Comparison of costs incurred with the predetermined or budgeted costs focuses attention on those costs which are excessive. To a limited extent, budgeting procedures can be developed to prevent excessive costs before they are incurred. When flexible budgets are used, budget allowances are established at varying volume levels with the result that when volume changes, automatic signals direct changes in variable costs. The budget can be employed to locate excessive costs as the first step in their elimination. Cost and expense budgets should be developed along lines of organizational responsibility to facilitate control by placing the responsibility for budget performance on individual supervisors. When unfavorable results are promptly reported, individual supervisors become more cost conscious than when the results of their efforts are less conspicuous. An effective reporting system is the key to the successful use of the budget. The accountant must not only report on budget performance but he must also interpret his reports and work harmoniously with operating supervisors to secure corrective action for cost control and cost reduction.

There seems to be a widespread belief outside of the larger companies and progressive smaller ones, that budgets are expensive tools available only to the larger concerns. Certainly the more

refined budgeting techniques have no place in the smaller organizations. But no concern is too small to benefit from some form of budgeting or forecasting. This is particularly evident during periods of recession.

The value of budgets to small concerns is forcefully demonstrated by the case of a very small company that is in business today only because it did some budgeting. This particular company is a wholesale distributor of a line of highly specialized products. An audit, a year and a half ago, disclosed that the company was on the brink of insolvency because of a major embezzlement by one of the three officer-stockholders. Fictitious receivables had been pledged as collateral to an outstanding bank loan. Bankruptcy would be inevitable if the bank called its loan. The remaining officers were advised to prepare a budget to ascertain whether the company could be re-established on a sound financial basis. The budget indicated the necessity of curtailing the officers' salaries, reducing expenses to a minimum and obtaining a subordination of certain notes payable. After these steps had been accomplished, the bank agreed not only to continue its loan but extended some additional financing.

Several months later, the company's officers reported "We're in trouble. The recession has hit us. We are not meeting our budgets." The budget was carefully re-examined. Sales policies were revised. Expenses were pared, and a new budget was developed to meet the revised conditions. The company has continued to earn modest profits and has completely re-established its credit. Twice it has survived perilous situations—thanks to budgeting.

In this instance, the annual budget is on one piece of paper providing monthly budget data in columns with alternate blank columns for inserting the actual data each month. These monthly comparisons are prepared by the bookkeeper for the owners' review. The sales budget shows quotas for each salesman. Approximately one day's time was required to develop each of the two budgets.

Cost Analysis—The Hammer

Another major tool of the cost accountant is cost analysis. The physicist has gained knowledge of and power over our physical universe as he analyzed it into its essential elements. As the Curies isolated the element, radium, we gained a powerful tool for combating disease. When other scientists isolated the atom and

smashed it, we obtained atomic bombs and atomic power. Cost analysis is the hammer with which the accountant can smash the conglomeration of financial data into its elements so that he can study and use them. Let us examine some of the areas into which the cost analyst may profitably inquire.

The nature of fixed and variable costs has always presented a problem to cost accountants. Obviously, some costs will fluctuate directly with volume and others will remain fixed. The vast majority of the items entering into cost will tend to increase with volume but will not increase in direct proportion. It is also quite obvious that while such semi-variable costs tend to increase as volume increases, they do not tend to decrease quite as readily. Certainly most accountants can recollect instances when, as volume increased, an additional position was created, e.g., an assistant superintendent. Then, when volume decreased to the original level, the new position remained as an element of fixed cost. It is extremely important, then, for the cost accountant to study and understand the behavior pattern of the costs with which he is concerned. Without accurate knowledge of these cost patterns, erroneous decisions can be made on many important business problems. Decisions on product pricing, plant operating levels, facilities expansion or contraction and whether to make or buy parts can all be affected by the results of fixed or variable cost studies.

By analyzing material costs, the accountant can frequently stimulate cost reductions. Design and material specifications, sources of procurement, economic lot purchases and transportation differentials afford fertile areas for investigation. Perhaps a few specific examples of material cost reductions will illustrate the increased profits which can result from cost analysis.

The savings achieved on a newly developed ordnance item are particularly amazing. The projected standard cost of production was over $20,000 per unit. A special task force including engineering, accounting and purchasing personnel was assigned to develop ways and means of reducing the cost of the item. The product was redesigned and the standard cost reduced to less than $1,000 per unit. The largest savings resulted from the substitution of standard hardware for specially machined parts.

The foregoing example is indicative of an area in which the cost accountant can frequently be particularly effective. While usually not possessing the technical knowledge to independently

ascertain the feasibility of design changes or substitute materials, the cost accountant with a good knowledge of shop practice can frequently be responsible for cost savings by the simple process of asking the question "Why."

Another study, initiated by a cost analysis group in a large plant, resulted in savings of over $20,000 monthly by establishing procedures for sorting scrap. The study disclosed that various types of scrap were being commingled with a substantial reduction in price when compared with the price of clean scrap.

An auto parts manufacturer purchased paper board from a mill 200 miles distant. After die cutting, substantial quantities of scrap were reshipped to the mill. Arrangements were made to die cut the paper board at the mill site, eliminating a two-way haul on the scrap and reducing the net cost of the completed part.

A defense contractor, concerned with the rising costs of subcontracts, arranged for cost audits of the subcontractors' records which resulted in substantial downward adjustments of subcontract prices.

The role of the cost analyst in the area of labor costs is better known. The use of labor standards as a measuring stick to determine the efficiency of labor and the reporting of labor variances when they occur is so widely practiced that little comment is required. However, if any one area were to be singled out in which accountants have failed most frequently in controlling labor costs, it is in failing to secure effective utilization of labor efficiency reports. It is the function of operating management to control labor costs. It is the function of the cost accountant to provide operating management with the data to control labor costs. All too frequently, the accountant supplies efficiency reports, but nothing happens. Efficiency reports without corrective action might better be termed inefficiency reports. Has the accountant done his job if there is no corrective action? The answer is no. The pay-off is on results, not on reports. The accountant has not done his job until he has "sold" his product and motivated operating management into taking action. Perhaps this means putting the report in simpler terms or oral reviews and discussions with foremen and superintendents. It means getting out of the office and getting close to operations.

Cost analysis is an extremely effective tool in planning volume changes. When personnel are added or subtracted from the payroll, many hidden costs arise. Start-up costs, termination costs,

unemployment insurance experience ratings and other factors must be considered in making decisions to open a new department or to add an extra shift. Costly mistakes can be avoided by taking all the cost factors into consideration in making these decisions.

Expense Analysis—The Microscope

Expense analysis, the cost accountant's microscope, is frequently a rewarding source of cost reduction. Manufacturing and administrative costs probably receive first attention from many accountants who neglect fruitful areas for cost savings in engineering and distribution expense.

The largest single cost reduction achievement with which I am familiar resulted from an analytical study of engineering costs. Engineers are creative people who tend to resent and resist efforts to control or restrict their activities. When good technical talent is scarce, they demand and obtain preferential treatment, including immunity from the ordinary rules of financial control. The scarcity of good engineering talent, however, dictates the need for effectively utilizing the talent available.

Experience has shown that engineering activities can be subjected to budgetary control. Perhaps the first premise to establish is that for practically every assignment undertaken by the engineering department, there is the alternative of contracting the assignment to an independent engineering firm. The company department is actually in competition with such outside firms and can be required to estimate each job in advance. Such estimates can be made the basis for project budgets. No work should be undertaken without appropriate budgetary approval of the project. All time should be accounted for against individual projects, and, of course, actual costs should be regularly compared with budgets and explanations required for variances. The approved projects form the basis for ascertaining manpower requirements. This system can be effectively employed not only to reduce engineering costs, but also to obtain greater production from the available technicians.

Similarly, cost accountants generally have been slow in applying the same principles to distribution costs that have been found effective in controlling manufacturing costs. Salesmen's salaries, commissions and expenses can be related to the gross profit earned on each salesman's sales. When such costs are converted into percentages of gross profit, startling discoveries are often made as to the profitability of individual salesmen.

Areas where no sales efforts should be made for certain product lines are frequently disclosed by statistical analyses of buying potentials and related studies of available sales dollars by product lines.

Order-handling costs are readily susceptible to cost analysis. Large numbers of small orders often account for only a microscopic portion of a firm's business, and are actually loss items due to high handling costs. Revisions in pricing policies such as institution of minimum order amounts can sometimes be effected. Small-order departments have also been started to minimize such losses. One of the armed services instituted self-service supply centers to reduce order-handling costs. If the analyst can pinpoint the problem, someone can usually find a solution.

The cost of operating delivery equipment is frequently worth studying. The prevailing trend toward contract delivery services is sufficient evidence of savings in this area.

Product Cost—The Assembly Line

Up to this point, we have considered the broader areas of cost accounting relating to managerial control. It is in these broader areas that the cost accountant can make the greatest contribution to increased profit. This should not, however, detract from the traditional function of cost accounting, that of assembling and ascertaining the cost of individual products. A reliable cost accounting system is an essential prerequisite in increasing profit through cost control and cost reduction.

The importance of a good cost system was vividly illustrated a few years ago in a particular automotive supply concern with which I am familiar. This company has a very effective cost department and is an efficient producer. For years it enjoyed a fine relationship with all the major automobile companies. Its accurate cost data enabled it to quote closely on new business, always earning a consistent and satisfactory profit. Suddenly, however, they stopped getting orders from one of the large automobile manufacturers. On quotation after quotation to this company they were underbid by small amounts by a certain competitor, who was known to have little in the way of a cost department. The conclusion was eventually reached that someone in the customer's purchasing department was disclosing their bids to the competitor. The next time a request for quotation on a large order was received from this customer, the quotation was

submitted based on fifty percent of cost. Again the same competitor underbid them—and hasn't yet recovered from the resulting loss.

In some industries, sales prices are established in relation to costs. Where this condition exists, the effect on profits of errors in cost determination is direct and immediate. More frequently, however, sales prices are set by competitive conditions outside the individual company. The product costs, then, become the basis for ascertaining profits or losses on individual products or product lines. Accurate and timely information on product profitability enables management to intelligently make decisions as to emphasis in sales campaigns, adding or deleting products from the line and other matters of vital interest to the company's profit result.

Defining the extent to which it is practicable and profitable to accumulate detail costs for products or product lines is one of the most perplexing questions for cost accountants. When the nature of the operations are such that a job cost system is appropriate, such as in the construction industry, the question may be readily resolved by accumulating costs for individual jobs. Even then it is sometimes advisable to accumulate separately the costs of individual features for cost control and cost reduction purposes. Where product lines consist of many hundreds of items with variants for size, color and other factors, accumulating costs for each individual item in the product line can be cumbersome and expensive. Properly designed standards will provide predetermined costs for each item in the product line and eliminate the necessity of detailed cost accumulations without sacrificing the cost information which is necessary for cost control and cost reduction purposes. It is important in such circumstances to revise these standards whenever significant changes in labor rates or material costs occur.

One illustration of maintaining cost records in unnecessary detail occurred in a container manufacturing company. The cost procedures for this concern provided for accumulating actual costs for each size and type of container, including separate accumulations for containers bearing private brand labels. After some research, it was concluded that the imprinting of a particular brand label on the container did not make a difference in the cost of manufacturing the container and that, as between plain and branded containers, a standard cost could be used to cover the cost of the imprinting. System changes based upon these findings

decreased the number of cost accmulations from many thousands to a few hundred and produced substantial savings in clerical costs without reducing the available cost control data.

In another instance, a manufacturer of metal products established standard costs for each item in the line, based largely on size. When profit margins proved to be unsatisfactory despite apparently satisfactory sales mark-ups, a study of the cost system disclosed the following situation: The standard costs were based completely on standard stock product items although the company produced, in addition to the standard stock items, many variations based upon individual product drawings. The standard costs which had been established did not adequately cover the additional costs resulting from special handling and set-up which were required for the production of these special items. Consequently, the selling prices on special items were lower than those of competitors and the company was gradually securing a greater proportion of unprofitable business in these special products.

Management Reports—The Oil Can

Management reports are the accountant's oil can. By supplying vital financial information to the various segments of management, he promotes the harmonious working of the whole management team toward the ultimate objective of profit improvement. The accountant alone can produce nothing and is effective in improving profit only when he communicates with other members of management. Such communication may be written or oral, whichever it takes to do the job. No labor efficiency computation can improve efficiency; but when the accountant communicates this computation to the foreman responsible, he has taken the first step in improving efficiency since the foreman can take action to correct the undesirable situation. The accountant's report serves as a basis for executive action only if it motivates the responsible executive to take action. Personal communication between the accountant and the operating executive is frequently far more effective than the written report alone.

In any well-managed company there should be regular and frequent communication between the accountant and the operating management. The controller reviews operating results with the general manager; his assistants and cost analysts review departmental results with superintendents and foremen. The closer the accountant is to operating management the more effective his

communications are. No industrial accountant can be effective without getting close to operations. He should understand what goes on in the shop and make it a point to meet operating supervisors on their own grounds. He should know what operating people are thinking and win their confidence so that he has the opportunity to bring the financial viewpoint to bear on transactions before they are consummated. Any accountant thoroughly familiar with plant operations will generate ideas for cost control and cost reduction.

The cost accountant's responsibility for reporting should go beyond the first line of operating management. An integrated reporting system should provide for reporting appropriate financial data to every level of operating management including: lower supervisors, middle management, top management and the Board of Directors. The requirements for reporting to each of these groups differ. Each group should be furnished with the appropriate financial data relating to the activities for which it is responsible. The foreman is concerned with the performance of individuals under his supervision. The plant superintendent is concerned not with the performance of individuals but with the performance of departments. The president of the company is concerned with the performance of each division of the company and its individual component sections.

Reports to management should be streamlined, furnishing only the essential data upon which some action is expected. Unnecessary data and unnecessary reports tend to obscure important information which requires action. Factual reports which are issued on a regular and recurring basis should be timely and should be interpretive. The cost accountant should serve as an interpreter of the data in his reports, pointing out unsatisfactory conditions, the reason for the unsatisfactory conditions and suggested courses of action for their elimination.

The discovery and reporting of an area of cost reduction does not put a penny in the company's till. The realization of the cost reduction is the only contribution that produces profit. The interpretive financial report is often the pay-off tool. But, if, in your company, written reports get side-tracked into the bottom drawer, and the president is more receptive towards your coming into his office and saying, "I think we can cut costs in such and such an area because," then, by all means, do it in the way that gets results.

System Design—The Working Model

Last, but not least, accountants should look for the profit improvements which can result from cost reductions in their own departments. Accounting activity is becoming more costly. Salary and other costs are increasing. Managements are demanding more and better information. Improved accounting techniques and technological improvements in mechanical, electrical and electronic accounting machines should be used to the maximum advantage to reduce these increasing costs. Neither should accountants overlook the inherent economy and effectiveness of an accounting system that provides simply and concisely all of the accounting information required for financial statements, budgetary control, cost control, product cost, etc.

The chart of accounts is the basic framework of the accounting system. It should provide a simple and logical method of accumulating financial and cost accounting information and segregating such information into areas of executive responsibility. The accounts should be adaptable not only to the easy preparation of financial statements but also to the preparation of budgets and budget reports. With the financial and cost accounting information filed away systematically in the convenient reference points provided by the chart of accounts, the accountant can apply all of the tools in his kit towards his ultimate objective of assisting his company to improve the return on its investment.

Each and every one of the accounting tools that we have discussed, is designed to assist the accountant in achieving his ultimate goal of improving the return on the capital invested in his company. Each tool has its own uses and purposes. To be effective, they must be used skillfully and their uses skillfully coordinated. No one tool alone can be used to achieve the goal. All must be used and their uses skillfully coordinated just as the master carpenter uses all his tools to build a house.

A "South-of-the-Border" Reaction to Public Accounting in the United States

By Eduardo Casillas (Despacho Roberto Casas Alatriste)

In October 1957 Despacho Roberto Casas Alatriste became the Mexican member of Coopers & Lybrand. One year later I was given the opportunity to spend most of a year in the New York Office of Lybrand, Ross Bros. & Montgomery in order to familiarize myself with the accounting and auditing techniques and practices in the United States. This marked for us the beginning of an "exchange-staff" policy, which I hope will be continued through the years.

After the excitement of settling affairs with local and foreign immigration authorities and farewells to family and friends, I flew on October 31, 1958, to New York to start a wonderful experience, not only in auditing and accounting matters but in many other respects. To know different people with a different language, customs and ambitions meant, at first sight, possibly difficulties, perhaps troubles. But when you find out that people are not too different, that they have basically the same problems, customs and aims, plus the fact that you have the sympathy and goodwill of everybody in helping you with the only real problem—the language—then everything flows smoothly and you enjoy your adventure from the very beginning.

Before going further, and as a way of introduction, I should like to describe briefly the requirements which a C.P.A. (Contador Publico Titulado) candidate has to fulfill in Mexico. After finishing with his school schedule which includes six years of elementary, three years of high school, two years of college and five years of university, the applicant must write a thesis and submit it for the approval of a board of examiners of the college or university in which he studied. Once the thesis has been approved, he is requested to solve a case problem and then to take the final public examination in the presence of five examiners (jurors). Usually the examination inquiries concern the criteria supporting the thesis and solution to the practice problem. After he has completed these requirements, he is a C.P.A., the necessary certificate is delivered to him by the college or university authorities and his final step is to

register the certificate in the Bureau of Professions (Direccion de Profesiones), a branch of the Ministry of Education. Only those universities or colleges appointed by the Ministry of Education or a local State Government can issue the C.P.A. certificate.

Three major features might be pointed out in comparison with the United States procedures:

1. The final examination is more like the requirement for a master's degree in a United States college or university.

2. Once you receive the certificate you are a C.P.A. and are qualified to practice public accounting in all of the states of Mexico without limitations or additional requirements, in contrast to the United States with the problem of recognition of certificates or reciprocal certificates.

3. We do not have an experience requirement. However, the classroom schedules of our colleges usually run from seven to nine or ten in the morning and from four or five to nine in the evening which permits students to work for public accountants or corporations or private concerns.

Following a successful (considering the circumstances) first subway ride, and having been introduced to more persons than I could possibly remember, I was given my first assignment, studying corporate and individual United States income taxes. The Tax Department probably assumes, as do I, that I am now able to find the answers to relatively simple problems.

Corporate income taxes in Mexico are not too unlike those in the United States. We have (1) a graduated tax with a maximum rate of 39% over two million pesos profits; (2) a graduated excess profits tax based on the remaining net profits after deducting the prior income tax, whenever such profits exceed 15% of the net worth of the company at the beginning of the fiscal year and limited to 10% of those profits; and (3) a tax of 15% on the distributable profits, regardless of whether the profits are distributed as dividends. All of these taxes combined amount to an effective rate of 53.3% for a corporation taxed at the maximum.

The tax on income earned by individuals is on a graduated scale with the following maximum rates:

a. 39% on profits earned from a concern;

b. 46% on salaries and wages; and

c. 33% on professional or other specialized personal activity.

I should mention that dividends received by an individual are not included in determining his taxable income, since the 15% tax on distributable profits has been already withheld or paid by the corporation.

Once the Tax Department finished with me I was assigned to the audit staff and was sent to the front line. My assignments included medium and large corporations, a charitable institution and two brokerage jobs. It was certainly a wide range in experience. Independently of what my performance might lead others to believe, and despite disagreements in some instances (which have been resolved), I have found that audit standards and procedures in the United States are quite similar to those of Mexico. This is not surprising since we have fashioned our standards and procedures after those of the United States. From my standpoint, the net results seem to be very profitable with the major improvements related to the audit planning and administration phases. The most surprising thing is the close cooperation between public accountants and clients.

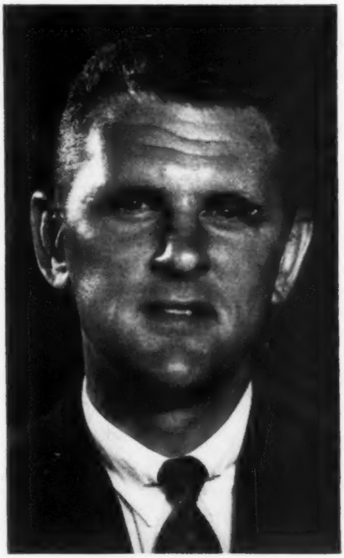
In the meantime, between one assignment and another I was lucky enough to attend several meetings, sessions and lectures concerning the latest developments within the profession. Central themes in those sessions, among others, were procedural testing, statistical sampling and tax savings. These were interesting sessions. Outstanding to my mind is the "new look" in connection with internal control and internal check and their relationships to procedural tests.

Finally, I have had the opportunity to see the activities of the summer training school conducted at Drew University. This school, together with meetings and other sessions mentioned above, constituted the most amazing thing for me. We have informal sessions in our office during the so-called idle season but nothing that can even resemble the tremendous effort made by Lybrand to develop capable and well trained personnel.

In closing, I want to extend my sincere gratitude or probably I should say "Muy agradecido," to all the kind people who have helped to make my visit to the United States beneficial and unforgettable.

The New Partners

LOUIE M. BRADLEY



REED L. COLEGROVE

FRANCIS A. GALLAGHER

JAMES E. GELBERT

The New Partners

The Firm is pleased to welcome into partnership Messrs. Louie M. Bradley, Reed L. Colegrove, Francis A. Gallagher, James E. Gelbert, Raymond E. Graichen, Robert M. Leng, Louis C. Moscarello, Edward P. Mullen, Richard W. Russell, Donald W. Schroeder and Joseph E. Tansill. Their records of service to our clients have in each case well merited this recognition, and the Firm is confident that they will meet their increased responsibilities in fullest measure.

ALVIN R. JENNINGS

LOUIE M. BRADLEY

Louie M. Bradley was born in Sardis, Mississippi, on September 4, 1917. He attended public schools in Hollywood, California, and graduated from Southwestern University in Los Angeles, in 1938, with a B.C.S. degree. In January of 1940, he joined the staff of the Los Angeles office.

He is a certified public accountant of California, a member of the American Institute of C.P.A.'s and the California Society of C.P.A.'s and has recently been elected a Director of The California Society for a two-year term. He has been chairman of the Governmental Accounting and Auditing Committee of the Los Angeles Chapter of The California Society, chairman of the Municipal Accounting Award Committee of The California Society, and member of several other committees of the Los Angeles Chapter of The California Society of C.P.A.'s.

Mr. Bradley, his wife, Nancy, and Carolyn, 17, and Jeffrey, 15, live in San Gabriel.

REED L. COLEGROVE

Reed L. Colegrove was born in Cleveland, Ohio, on November 21, 1922. He attended public schools in Bronxville, New York, and was graduated from Swarthmore College with a B.A. degree in February 1943. After three years as a Supply and Disbursing Officer in the Navy, most of which was spent as Paymaster for a division of LST's in the Atlantic and Pacific Theatres, he attended Columbia University. He received his M.S. degree from the School of Business in 1947, and joined the New York office of the firm in September of that year.

Mr. Colegrove is a certified public accountant of New York. He is a member of the American Institute of C.P.A.'s and the

New York State Society of C.P.A.'s, and has served on several committees of the latter organization.

Mr. and Mrs. Colegrove and their two children make their home in Scarsdale, New York.

FRANCIS A. GALLAGHER

Francis A. Gallagher was born in Jackson, Tennessee, in 1910. He attended grade and high schools in Chicago, Illinois. After an interval of several years, he continued his education at DePaul, Loyola and Northwestern Universities on a part-time basis.

During World War II, Mr. Gallagher was in the United States Army from March, 1942 until January 1946, attaining the rank of Captain.

Mr. Gallagher joined the staff of the Rockford office in 1952, and later became manager of the tax department. He is a certified public accountant of Illinois, and a member of the American Institute of C.P.A.'s and the Illinois Society of C.P.A.'s.

Mr. Gallagher is married and has four children, three boys and a girl.

JAMES E. GELBERT

James E. Gelbert was born in Pittsburgh, Pennsylvania, on April 27, 1915. He was graduated from Franklin and Marshall Academy in 1932, and received his A.B. degree from Gettysburg College in 1937, where he was elected to membership in Phi Beta Kappa.

After having spent five years with the Internal Revenue Service, he joined the Tax Department of the Philadelphia office in 1942. He transferred to the Pittsburgh office as Manager of the Tax Department in 1952.

Mr. Gelbert is a Certified Public Accountant of Pennsylvania. He is a member of the American Institute of C.P.A.'s, Pennsylvania Institute of C.P.A.'s, National Association of Accountants, and Pittsburgh Tax Club. He is currently Chairman of the Pennsylvania State University Tax Institute.

Mr. Gelbert is married, with two children, a son and daughter. The family resides in Brookside Farms, a suburb of Pittsburgh.

RAYMOND E. GRAICHEN

Raymond E. Graichen was born in Methuen, Massachusetts, on July 1, 1922. He received his early education in the public

schools and attended Boston University and the University of Pennsylvania.

After several years in private industry and civil and military service, he joined the Philadelphia staff of the Internal Revenue Service in 1945, where he served as an internal revenue agent and conferee. He was also a resident instructor in Federal income taxation at the Bureau of Internal Revenue in Washington, D. C.

Mr. Graichen joined the tax department of our Philadelphia office in January of 1953. He is a certified public accountant of Pennsylvania and is a member of the American Institute of C.P.A.'s, The Pennsylvania Institute of C.P.A.'s, the National Association of Accountants and the American Accounting Association. He has served on numerous committees and is presently tax editor of the "Spokesman" of the Pennsylvania Institute.

Mr. Graichen is married and has two daughters. He and his family reside in Colonial Village, Wayne, Pa.

ROBERT M. LENG

Robert M. Leng was born in Staten Island, New York on December 27, 1906. He attended Staten Island public schools and was graduated from Cornell University in 1928 with an A.B. degree in Economics. Mr. Leng joined the staff of Loomis, Suffern and Fernald in October 1928 and was made a partner of that firm in 1944. He is a certified public accountant of New York, a member of the American Institute of C.P.A.'s, the American Accounting Association, the National Association of Accountants and The New York State Society of C.P.A.'s where he has served on various committees. He has been Vice President and is presently Director of the Richmond County Chapter.

Mr. Leng is married and has one son. The family resides in Staten Island.

LOUIS C. MOSCARELLO

Louis C. Moscarello was born in New York City on February 9, 1923. He attended the New York City public schools and received a B.B.A. degree from the College of the City of New York in 1942. He joined the staff in September 1942 and left to go into the military service in March 1943. He served as a meteorologist in the Army Air Forces for two years and was subsequently commissioned as a second lieutenant in the Field Artillery. He returned from military service in May 1946.

The New Partners

RAYMOND E. GRAICHEN

ROBERT M. LENG

LOUIS C. MOSCARELLO

EDWARD P. MULLEN

Mr. Moscarello is a certified public accountant of New York and is a member of the American Institute of C.P.A.'s, The New York State Society of C.P.A.'s where he is Chairman of the Committee on Retail Accounting, the Metropolitan Controllers Association, and Controllers' Congress of the National Retail Merchants Association where he is a member of the Advisory Committee to the Standardization Committee.

Mr. Moscarello is married and has three sons and two daughters. The family resides in Ridgewood, New Jersey.

EDWARD P. MULLEN

Edward P. Mullen was born in Philadelphia, Pennsylvania, on March 25, 1917. He received his early education in the parochial schools of that city, and was graduated from St. Joseph's College in 1938 with a B.S. degree in accounting. After several years of public accounting experience with individual practitioners, he joined the staff of our Philadelphia office on October 1, 1941.

He is a certified public accountant of Pennsylvania, and a member of the American Institute of C.P.A.'s, the Pennsylvania Institute of C.P.A.'s, and the National Association of Accountants. He has been active in committee work for the Pennsylvania Institute and its Philadelphia Chapter. Mr. Mullen is also currently serving on the Board of Governors of St. Joseph's College Alumni Association.

Mr. and Mrs. Mullen and their four children make their home in Devon, Pennsylvania. .

RICHARD W. RUSSELL

Richard W. Russell was born in Philadelphia, Pennsylvania, on January 4, 1923. In 1934 his family moved to Detroit, Michigan, where he completed his education through high school. He received a B.S. degree in Electrical Engineering from Worcester Polytechnic Institute in 1944, following which he served in the Naval Reserve until 1946, attaining the rank of Lieutenant (j.g.). Upon graduation from the Harvard Graduate School of Business in 1949, with the degree of M.B.A., he moved to California, was employed for a year in private industry and, in 1950, joined the staff of our Los Angeles office.

He is a certified public accountant in California and a member of the American Institute of C.P.A.'s and the California Society of C.P.A.'s.

Mr. Russell is married and has one son and one daughter.

The New Partners

RICHARD W. RUSSELL

DONALD W. SCHROEDER

JOSEPH E. TANSILL

DONALD W. SCHROEDER

Donald W. Schroeder was born in City Point, Wisconsin, on July 2, 1917. He attended the public schools in Wisconsin Rapids, Wisconsin, and was graduated from the University of Wisconsin in 1943 with a B.A. degree from the School of Commerce.

During World War II he served in the U. S. Navy as an anti-submarine warfare officer for a period of three years.

After a number of years' experience with two other national public accounting firms, he was employed as assistant to the Secretary-Treasurer of a paper company in Appleton, Wisconsin. A year later, however, he returned to the public accounting field by opening an office in Appleton, where he carried on his own practice for almost three years. Finally succumbing to the charms of California, he moved to the Bay Area and joined the staff of our San Francisco office in October 1954.

Mr. Schroeder is a certified public accountant in the States of Wisconsin and California, and is a member of the American Institute of C.P.A.'s and The California Society of C.P.A.'s. He has served on numerous Chapter and State Society committees.

Mr. Schroeder is married and, with his wife and three sons, resides in Los Altos, California.

JOSEPH E. TANSILL

Joseph E. Tansill was born in Washington, D. C., on August 13, 1922. He graduated from Fordham University in 1943, with an A.B. degree and from the New York University Graduate School of Business Administration in 1950, with an M.B.A. degree. He served as a cavalry officer in the southwest Pacific during World War II and joined the New York office in March, 1949. He transferred to the Chicago office in 1953.

Mr. Tansill is a certified public accountant of New York and Illinois, a member of the American Institute of C.P.A.'s, and of the New York and Illinois State Societies of C.P.A.'s. He has served on numerous committees of the Illinois State Society and is at present Vice Chairman of the Committee on Taxation. He is also a member of the Illinois State Chamber of Commerce's Committee on State and Local Taxation.

Mr. Tansill is married, has three daughters and one son and resides in Mount Prospect, Illinois.

Discharge of Indebtedness at a Discount*

By Herman Stuetzer, Jr.

The discharge of indebtedness at a discount is an everyday occurrence in business operations. Corporations frequently buy back their own bonds at less than face amounts. Insolvent debtors settle their debts for so many cents on the dollar either in or out of insolvency proceedings. Financially embarrassed creditors accept less than face in premature settlement of debts. For any one of a variety of reasons the agreed purchase prices of assets are retroactively adjusted downward. In these and many other instances debts are satisfied by the transfer of consideration (money or other property) worth less than the face amounts of the debts. In addition, there are instances where debts are discharged for no consideration at all.

The General Rule: Discharge Results in Income

All of these situations embody the same question. Does the discharge of the debt for less than its face amount result in taxable income to the debtor? The general rule is that it does. This is the rule established by the Supreme Court in the Kirby Lumber Co.[1] case and the American Chicle Co.[2] case.

The theory behind this general rule is that the discharge of a debt for less than its face amount frees assets which were previously at least offset and may be actually encumbered by the debt.[3] Thus, the Kirby case involved the classic situation of a corporation buying its own bonds in the open market at less than face amount. The amount of the assets so freed is equal to the reduction in the debt. That in turn determines the amount of income.

But the general rule over the years has been badly riddled by exceptions. So much so that today probably more cases fall within the exceptions than within the general rule. On the other hand, there are also many exceptions to the exceptions with the result that classifying any given situation requires a very careful study of the facts as well as the applicable principles.

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Debt Must Be Genuine

However, the first question is whether a genuine debt situation exists. A recent Tax Court decision points this up. In J. A. Mourer, Inc.,[4] Reynolds, the majority stockholder of the taxpayer, had advanced to it $900,000 even though his stock investment was only $83,000. As part of a deal whereby another acquired control of the taxpayer, Reynolds accepted $400,000 from the taxpayer in satisfaction of his alleged debt. The Commissioner claimed that the taxpayer realized income of $500,000. Relying on the usual thin capitalization arguments, here advanced by the taxpayer, the court held that the $900,000 was not debt but "contributions of risk capital" by Reynolds and that hence the taxpayer realized no income from the transaction.

Forgiveness as Gift

An important exception to the general rule is the one established by the Supreme Court decision of *Helvering v. American Dental Co.*,[5] a landmark almost as old as Kirby Lumber Co.[6] It is an axiom of our income taxation that a gift does not constitute taxable income. This is none the less true when the gift takes the form of the gratuitous forgiveness or cancellation of a debt according to this decision.[7]

Intent to Make a Gift

However, the applicability of this exception has been seriously curtailed by *Commissioner v. Jacobsen*.[8] This decision established that the intent to make a gift by way of debt cancellation must be strongly indicated. Otherwise it will be assumed that the creditor was merely trying to make the best of a bad deal.

The mere absence of consideration is not enough to prove the gratuitous intent; but on the other hand, the presence of even a small amount of consideration makes it more difficult to prove the gratuitous intent.[9] Similarly the fact that a debt arose out of a commercial transaction does not completely rule out gratuitous intent but that fact certainly makes it more difficult to prove.[10]

The situation is somewhat similar to gifts by an employer to an employee. Such gifts are theoretically completely possible but as a practical matter it is almost impossible to convince a Revenue Agent that any transfer by an employer to an employee is anything other than compensation.

Employer-Employee Debt

The same result follows when debt cancellations occur in the employer-employee field. Here, a cancellation whether partial or complete, is almost certain to be held to be compensatory.[11] This result may be less likely to follow if the cancellation occurs after the employment has been terminated. In that event, the principles of cases like *Bogardus v. Commissioner*[12] apply.

Stockholder-Corporation Debt

In this situation, a cancellation, whether partial or complete will probably be held to be a taxable dividend to the extent of the accumulated earnings and profits.[13] If it is essential to eliminate a stockholder debt without payment, and if circumstances will permit, it may be better to distribute the debt to the stockholder in a complete liquidation, leaning on the thin reed of the Gilmore[14] case to avoid taxable income to the stockholder.

Corporation-Stockholder Debt

When a debt runs the other way, that is: a corporation is indebted to its stockholder, the situation appears much simpler. The forgiveness of part or all of such a debt is merely a contribution by the shareholder to the capital of his corporation.[15] In fact, the present regulations provide that "in general" this is the result.[16] However, the courts have rather severely limited the incidence of this exception. The limitation is essentially the same as in cases of gratuitous forgiveness generally. Thus, in a corporate debt situation it must be clearly manifest that the stockholder-creditor actually intended the forgiveness of the debt to be a contribution to the corporation's capital and not merely making the best of a bad bargain.[17] This obviously is the application of a Jacobsen[18] type test.

Purchase Price Adjustments

A frequently occurring exception to the general rule is the one which involves adjustments to purchase price. It has been held repeatedly that the cancellation of part or all of a debt does not result in taxable income if it is in substance a reduction in the purchase price of property.

The Hirsch[19] case is the landmark in this category. This exception too is circumscribed by the intention test. There must be a clear intention actually to reduce the purchase price, and not

merely an intention by the creditor to get the best possible deal or to get his money more quickly.

Fair Market Value

Tied in with the intention test is the question of fair market value. Generally, genuine reductions in purchase price represent an adjustment to bring the original price in line with a reduced market value. Probably because of this it is held that a non-income producing price reduction has occurred only where the debt is reduced to a figure not below the then market value of the property.[20]

If the reduced debt is below the market value, income results to the debtor. Presumably this negatives the intention merely to adjust purchase price and indicates an intention to get the best deal possible. Furthermore, it also frees encumbered assets.[21]

Insolvency of Debtor

Probably one of the most important, if not the most important, exception to the general rule that cancellation of debt produces income is the well established principle that the partial or total discharge of an indebtedness does not produce taxable income when the debtor is insolvent.[22] This exception is completely consistent with the asset freeing concept of the Kirby Lumber[23] doctrine. When a debtor is insolvent, the cancellation of his debt frees no assets and hence results in no income.[24]

But as a corollary to this exception, income does result if the insolvent debtor is made solvent by the debt cancellation.[25] This too is consistent with the asset freeing concept. Thus assets are freed to the extent that the debtor is made solvent. And to that extent, he realizes taxable income.[26]

No Assets Received by Debtor

The next exception to the general rule is somewhat confusing. It has been said that where no assets were received when a debt was incurred, its cancellation does not result in taxable income. This has been applied to cancellation of debts based on (1) a wife's voluntary assumption of her husband's debt[27] (2) bonds issued by a corporation as a dividend backed only by a revaluation surplus,[28] and (3) bonds with a $50 face value issued in a tax free reorganization for preferred stock of the same face value which had originally been issued for only $5 per share cash.[29]

At first blush it might be assumed that the result in these cases was based on the principle that the various debts, lacking consideration, were not valid. But this is not the fact. In the first place the debts although not supported by cash consideration paid to the debtor, were probably valid for some other reason. They might have been under seal in a jurisdiction still recognizing the sanctity of the seal; or, they might have been supported by some other adequate consideration such as an advance by the creditor to a third party on the strength of the taxpayer's guarantee. In any event the decisions in these cases did not bottom their results on the invalidity of the debts.

Instead, the results were based on the fact that the debtor's assets were not increased at the time that the debts were incurred. This converts the Kirby Lumber Co.[30] doctrine into a two pillared proposition. It is not enough that assets be freed when a debt is cancelled; because, in all these cases, if the debts were valid and binding, necessarily assets must have been freed when the debts were cancelled. In addition, it is essential under this interpretation of Kirby Lumber Co.,[31] that the debtor's assets must have been increased when the debt was incurred.

Debt Where Transaction Resulted in Loss

Still another approach to this type of case is that used by the Supreme Court in *Bowers v. Kerbough Empire Co.*[32] There the court held no income was realized by a debtor when a debt payable in foreign currency was satisfied when that foreign currency was at a much lower rate of exchange.[33] The debt had been incurred in connection with a construction contract which in itself had resulted in a loss greater than the reduction in the foreign exchange rate. The court said that no income resulted because the transaction as a whole resulted in a loss. A diminution of a loss did not produce a gain. This case was cited as an alternative basis for the result reached in the cases involving no increase in assets at the incurrence of the debt.

Contingent Debt

Still another variation of this situation is the cancellation of a contingent debt. Such a cancellation is said not to result in taxable income.[34] The basis of the conclusion is not entirely clear, but it could be that no assets were received when the debt was incurred, or that none is offset or encumbered so long as the

contingency exists. Since none is offset or encumbered, none is freed by the cancellation.

Debt Cancellation and Tax Benefit Rule

The relationship of the tax benefit rule and debt cancellation is important.

Cash Basis Taxpayer

Let us assume that a taxpayer pays a real estate tax in a loss year and gets no tax benefit either by way of current deduction or loss carryback. In a later year the real estate tax is recovered for one reason or another. This recovery does not produce taxable income.[35] Actually the recovery itself is merely a return of the taxpayer's capital, i.e., of assets which he paid out, but should not have paid out in the first instance. On the other hand, if the real estate tax had resulted in a tax benefit by being deducted, it would have assumed income characteristics and its refund would be a return of taxable income, not capital.

Accrual Basis Taxpayer

The same is true if the tax benefit rule is considered from an accrual point of view. Accruing a real estate tax does offset assets but, where no tax benefit has been received, the reversal of the real estate tax accrual[36] is comparable to a return of capital. It can be said that under these circumstances the accrual of the tax did not result in the receipt of any assets by the debtor. Hence the reversal of such an accrual does not produce taxable income.[37]

But where the accrued item is deducted from income with a resultant tax benefit, it assumes income characteristics and its reversal results in taxable income. By the same token, it can be said that the deduction of an accrual with tax benefit resulted in the tax free receipt of assets, i.e., the otherwise taxable income which was offset by the deduction. Hence, the reversal of such a deduction should result in taxable income.[38]

When Creditor Is Stockholder

The interrelation of the tax benefit and debt cancellation rules is complicated when the creditor is a stockholder of the corporate debtor. Let us assume that a corporation has accrued but not paid interest due a stockholder. The stockholder owns less than 50 per cent of the stock and hence Section 267[39] does not apply.

Thus, the interest has been deducted with tax benefit to the corporation. If the stockholder cancels the interest debt, is this a nonincome producing contribution to capital or is it an income producing reversal of an accrued deduction which produced tax benefit? The courts seem to have disagreed in answering this question.[40]

The answer may depend upon the intention of the stockholder. If a contribution to capital was really intended, it should not matter that a tax benefit resulted from the original deduction of the item. But if the intention to contribute to capital is not manifest, the receipt of a tax benefit from the accrual furnishes a second string to the bow of taxable income.

Fortunately, the advent of Section 267 has reduced the frequency of these difficult cases to a minimum. In any event, where such a cancellation is planned, it is well to fortify it with as much evidence of an intention to contribute to capital as is possible.

Reduction in Basis

In addition to the exceptions to the Kirby Lumber Co.[41] rule, there is a statutory provision which affords relief from the rule. Under Section 108 of the Code, the discharge in whole or in part of any debt for which the taxpayer is liable, or subject to which he holds property, will not result in income if the taxpayer consents to a corresponding reduction in basis of property owned.[42] The debtor can be either a corporation or an individual, but if an individual the debt must have been incurred or assumed in connection with property used in the individual's trade or business. The basis adjustment is made in accordance with specific provisions in the regulations[43] which generally require an adjustment first in the basis of the encumbered property.

This is a salutary provision and in most cases affords adequate relief. However, it does not solve all problems or answer all questions. For instance, it is comparable to an election and like most general elections must be made in the return or an amended return filed before the final due date of the original return. A failure to make the election on time cannot be corrected unless the Commissioner consents.[44]

Whether and When to Consent

A more difficult problem arises where it is not clear to the debtor whether the cancellation of his debt produced taxable

income or came within one of the exceptions. The question then is whether an election under Section 108 should be made. If an election is made and it turns out that the cancellation of the debt did not produce income, is the basis reduction binding or can the election be withdrawn? Or, if it was not made in the first instance because it was assumed the cancellation did not produce taxable income, can it be made later without the Commissioner's consent, when it is determined that the cancellation did result in income? There are no answers to these questions.

Where the status of a debt cancellation is doubtful, a possible solution may be to make a contingent election. This would be accomplished by filing an election with the proper return but providing that it will only become effective if the debt cancellation does produce taxable income.

Transfer of Property in Satisfaction of Debt

If the fair market value of property transferred in satisfaction of a debt is equal to the amount of the debt, then no income to the debtor from cancellation of indebtedness can possibly result any more than if a debt is satisfied with cash, dollar for dollar. On the other hand, if the value of the property is less than the amount of the debt, income can result from the cancellation again just as in a cash case.

Transfer as a Sale or Exchange

However, the satisfaction of a debt by a transfer of property whether voluntary or involuntary is the same as a sale or exchange of the property at a price equal to the portion of the debt satisfied, which presumably is the fair market value of the property.[45] Such a sale or exchange can result in gain or loss just as any other sale or exchange. The amount of the gain or loss is the difference between the adjusted basis of the property and the price or fair market value.

The nature of the gain or loss depends on the character of the property. Where mortgaged property is such that a capital loss will result, it has been said that this result can be averted by an abandonment of the property in advance of the foreclosure of the mortgage provided there is no personal liability on the mortgage.[46] However, this is not entirely clear. Furthermore an abandonment of land is very difficult to achieve.

FOOTNOTES

The author expresses his appreciation for the assistance of his associate, David Love.

1. *U. S. v. Kirby Lumber Co.*, 284 U. S. 1 (1931).

2. *Helvering v. American Chicle Co.*, 291 U. S. 426 (1934).

3. *U. S. v. Kirby Lumber Co.*, supra, note 1.

4. 30 T. C. No. 135 (1958).

5. 318 U. S. 322 (1943).

6. *U. S. v. Kirby Lumber Co.*, supra, note 1.

7. Where a debt becomes barred by the Statute of Limitations, taxable income results. Two decisions in point indicate that, in this situation, there can be no gratuitous intent. The *Securities Company v. U. S.*, 85 Fed. Supp. 532 (S.D.N.Y. 1948), *Amis Van Nuys Schweppe v. Commissioner*, 8 T.C. 1224 (1947), aff. 168 F (2d) 284 (9th cir. 1948). It does seem that the opposite result often would be more correct, and income should result only where warranted, as where an antagonistic creditor's suit is defeated by a plea of the Statute of Limitations, clearly showing the lack of gratuitous intent.

8. 336 U. S. 28 (1948).

9. *Spear Box Co. v. Commissioner*, 182 F (2d) 844 (2d cir. 1950); Capital Coal Corp., 26 T.C. 1183 (1956), aff. 250 F (2d) 361, cert. den. 356 U. S. 936.

10. Ibid.

11. See *Reginald Denny*, 33 B.T.A. 738 (1935).

12. 302 U. S. 34 (1937).

13. *Fitch v. Helvering*, 70 F (2d) 583 (8th cir. 1934).

14. *Estate of Helen Gilmore*, 40 B.T.A. 945 (1939).

15. *Pennsylvania Electric Co. v. U. S.*, 135 F Supp. 416 (ct. cl. 1955).

16. Reg. 1.61–12.

17. *Commercial Freight Lines, Inc. v. Commissioner*, T.C. Memo (1957).

18. *Commissioner v. Jacobsen*, supra, note 8.

19. *Hirsch v. Commissioner*, 115 F (2d) 656 (7th cir. 1940).

20. *Ralph W. Gwinn v. Commissioner* T.C. Memo (1944); *Allen v. Courts*, 127 F (2d) 127 (5th cir. 1942).

21. Another facet of the intention test is indicated by *Frank v. U. S.* 44 F Supp. 729 (ED Pa., 1942). This case held a debt cancellation was not an adjustment of purchase price because the debt was then held by one other than the original vendor of the property. But the Hirsch case said this was not a determinative element.

22. *Lakeland Grocery Co. v. Commissioner*, 36 B.T.A. 289 (1937).

23. *U. S. v. Kirby Lumber Co.*, supra, note 1.

24. This rule has been criticized as at variance with the general tax rule that the taxpayer's insolvency won't prevent his receipt of taxable income. Thus, although there appear to be no cases on the subject it is generally assumed that an insolvent employee's receipt of salary is taxable. See *Parkford v. Commissioner*, 133 F (2d) 249 (9th cir. 1943) where the receipt of income by the taxpayer's trustee in bankruptcy was held to be taxable income to the taxpayer.

25. *Commissioner v. Pittsburgh & West Virginia Co.*, 172 F (2d) 1010 (3rd cir. 1949), cert. den. 337 U. S. 939.

26. In addition to the fundamental exception that an insolvent debtor realizes no income from cancellation of his debt, a specific regulatory provision establishes that income is not realized from debt cancellations in any bona fide proceeding under Chapters X through XIII of the U. S. Bankruptcy Act where avoidance of federal income tax was not one of the principal purposes of the proceeding. See Reg. 1.61–12.

27. *Bradford v. Commissioner*, 233 F (2d) 935 (6th cir. 1956).

28. *Commissioner v. Rail Joint Co.*, 61 F (2d) 751 (2d cir. 1932).

29. *Fashion Park, Inc. v. Commissioner*, 21 T.C. 600 (1954).

30. *U. S. v. Kirby Lumber Co.*, supra, note 1.

31. Ibid.

32. 271 U. S. 170 (1926).

33. Some earlier tax court cases refused to find that income resulted from the repayment of a debt due in foreign currency when the repayment occurred at lower exchange rates. William H. Coverdale T. C. Memo (1945); *B. F. Goodrich Co. v. Commissioner*, I.T.C. 1098 (1943). However, in the recent case of *Willard Helburn v. Commissioner*, 214 F (2d) 815 (1st cir. 1954) the first circuit declined to follow these cases, and affirmed the tax court decision that such repayment did result in taxable income. This decision is in accord with the general principle that discharge of indebtedness at a discount produces taxable income.

34. *Corporacion de Ventas v. Commissioner*, 130 F (2d) 141 (2d cir. 1942).

35. I.R.C. Sec. 111.

36. Essentially, cancellation of the debt set up by the accrual.

37. *Freihofer Baking Co. v. Commissioner*, 151 F (2d) 383 (3rd cir. 1945).

38. See Rev. Rul. 58–546, I.R.B. 1958–45, 12.

39. I.R.C. Sec. 267 disallows deductions for certain unpaid expenses between "related" taxpayers.

40. The tax court and second circuit take the position that the regulation, supra, note 16, by its unequivocable terms, makes this a contribution to capital. *Auto Strop Safety Razor Company v. Commissioner*, 28 B.T.A. 621 (1933), aff. 74 F (2d) 226 (2d cir. 1934). The view of the eighth circuit is that the tax benefit rule requires taxable income result. *Helvering v. Jane Holding Corp.*, 109 F (2d) 933 (8th cir. 1940).

41. *U. S. v. Kirby Lumber Co.*, supra, note 1.

42. I.R.C. Sec. 1017.

43. Reg. Sec. 1.1017.

44. *Dorman Tire & Rubber Co. v. Commissioner*, 192 F (2d) 261 (6th cir. 1951).

45. To the rule that the satisfaction of a debt with property is a taxable sale or exchange of the property, there is one important statutory exception. Where a debt owed by a subsidiary to a parent is so satisfied in a tax free Sec. 332 liquidation, subsection c of Sec. 332 provides that no gain or loss is to be recognized to the subsidiary. This provision was added by the 1954 Code to negative the effect of *Northern Coal & Dock Co.*, 12 T.C. 42 (1949).

46. *Parker v. Delaney*, 186 F (2d), 455 (1st cir. 1950), cert. den. 341 U. S. 926.

The 1959 Central Audit Training School

By Charles C. Martin (New York Office)

Introduction

Two centralized training programs for the audit staff were again conducted at Drew University during the summer months. The Elementary Course, held during the four-week period of July 27-August 21, was attended by 88 men who had recently joined the Firm. The Advanced Course, conducted during the two-week period of June 15-26, was attended by 127 trainees, most of whom had attended the Elementary Course given in the summer of 1958.

Three resident partners of the New York Office, Messrs. Philip L. Defliese, Norman E. Auerbach and Louis C. Moscarello, participated in the general operation of the two courses. As in previous years, Mr. Defliese had over-all responsibility for the two programs. Mr. Auerbach directed the expanded tax phase of the Advanced Course; Mr. Moscarello lectured in both programs and was directly in charge of the Elementary Course. The partners were assisted by a total of 22 audit and tax staff members, from eight offices, who served as instructors during one or both of the programs. These offices and numbers of instructors were as follows:

	Number of Instructors	
Offices	*1959 Elementary*	*1959 Advanced*
Birmingham	1	..
Boston	1	2
Chicago	..	2
Cleveland	1	..
Detroit	..	2
New York	5	7
Philadelphia	2	3
San Francisco	1	2
Totals	11	18

In addition, a number of other partners and staff men from the New York and Philadelphia Offices participated in seminars.

The class arrangements were substantially the same in the two programs. Each group of trainees was divided into classes, three in the Elementary and four in the Advanced Course, with

each class divided into three units. One instructor was assigned to each unit, which permitted him to concentrate his attention on ten to twelve trainees. At appropriate times, the instructors were reassigned within each class to provide the benefits of limited rotation.

The tremendous teaching values afforded by individual help and review were fully recognized throughout both programs. During class periods when the students were engaged in the preparation of working papers or reports, the instructors were available to answer questions or to discuss any portion of the work. All working papers and reports prepared were reviewed by the instructors, usually in the presence of the student.

An ideal campus environment essential to meet the requirements of an intensive program of study was provided by the facilities of Drew University. The trainees lived in campus dormitories, ate at the new campus dining hall, and were granted access to all campus recreational facilities. An athletic building, recently completed, provided indoor courts for basketball, handball and badminton and a large swimming pool. Tennis courts and a softball field were also available. During the Elementary Course, the trainees organized a softball team and competed against a

Instructors

Row 1

D. G. Perry (San Francisco), H. Brink, Jr. (Philadelphia), C. C. Martin (New York), R. H. Frey (New York), J. K. Taricani (Philadelphia), J. B. Alfano, Jr. (New York).

Row 2

J. P. Buleza (Cleveland), D. Krell (New York), F. G. Beatty (New York), F. C. Deisher (Birmingham), A. H. Carley (Boston).

local campus team. Both dormitory and classroom assignments were designed to foster the development of a wide acquaintanceship among the men from the various offices.

The Elementary Course

This course is designed to equip the new staff member with the practical auditing skills needed in his first few years on the audit staff. Emphasis is placed on the preparation of working papers and the role of the beginning staff accountant in each phase of an audit. The immediate training needs of the beginning auditor, such as cash work, receivable confirmations and aging, inventory observation, and vouching, were stressed. Longer-range training areas, such as inventory pricing, plant and depreciation, capital and dividends, were also covered. As a whole, the course provided

Section A

Row 1—Instructors (Bottom Row)
J. K. TARICANI (Philadelphia), D. G. PERRY (San Francisco), J. B. ALFANO, JR. (New York).

Row 2
F. H. ROLAND (Birmingham), A. B. BEITCHMAN (Boston), R. W. EILERS (Chicago), R. F. HENKE (Cincinnati), B. F. DURHAM, JR. (Dallas), D. V. BRONDYKE (Detroit), D. C. MORSE (Hartford).

Row 3
J. T. MOORE (Louisville), L. E. FREEMAN (Pittsburgh), G. E. BOULLIANNE (New York), R. A. HANDWERK (Philadelphia), L. D. FRANKS (Pittsburgh), R. W. CALLIHAN (Rockford), L. L. CREWSE (St. Louis), D. JONES (Boston).

Row 4
T. CASOGLOS (Detroit), D. V. BURGETT (Los Angeles), V. M. BRADY (New York), J. E. HENEHAN (Philadelphia), R. B. GUSKIEWICZ (Pittsburgh), G. R. COLE (Rockford), P. P. HARRISON (Chicago).

Row 5 (Top Row)
A. D. BROWN (Los Angeles), T. R. HANLEY (New York), W. C. GREENE (Boston), HENRY GEISE (Chicago), N. M. EDWARDS (Los Angeles), D. L. CARLILE (New York), R. F. HYLAND (Philadelphia), R. W. RHOADS (New York).

Section B

Row 1—Instructors (Bottom Row)
F. G. Beatty (New York), A. H. Carley (Boston), H. Brink (Philadelphia).

Row 2
P. C. Lavoie (Boston), H. Hindman (Chicago), E. B. Renneker (Cincinnati), W. J. Hendrix (Dallas), W. D. Johns (Detroit), R. T. Rice, Jr. (Hartford), N. R. Gilbert, Jr. (Los Angeles), D. L. Chamberlain (New York).

Row 3
V. A. Murphy (Boston), K. J. Kaiser (Philadelphia), T. A. Ryan (Pittsburgh), T. J. Clifford (New York), T. J. McMahon (Rockford), E. M. Peek (St. Louis), J. L. Craig (New York), M. R. Moyer (Philadelphia).

Row 4
S. R. Goldenberg (New York), R. J. McKenna (Boston), W. J. Maze (Chicago), W. H. Jorgensen (Detroit), J. F. Lillicrop (Los Angeles), P. G. Heller (New York), F. Lombardi (Philadelphia), D. L. Royalty (Chicago).

Row 5 (Top Row)
C. E. Seaver (Rockford), W. S. King (New York), R. P. Lalime (New York), R. C. Pace (Los Angeles), J. L. Landzert (New York).

the trainees an insight into the Firm's policies and procedures and served as a refresher in accounting principles and auditing procedures.

All trainees, except two who have not yet completed their formal college education, were college graduates and ten held master's degrees. More than one-half of the group had served in the Armed Forces and one-fourth of the men had some prior public accounting experience, the amount ranging from six months to two years. Ten of the trainees had served internships.

The program included central lectures, group lectures and discussions, working paper preparation, assigned readings, examinations, and seminars. A substantial amount of work outside the classroom was necessary in order to meet the requirements of this program.

Two especially successful phases of the course concerned the preparation of an internal control questionnaire and the evaluation of a specific audit program as related to a medium-sized industrial corporation, the subject of the audit practice set used in both the Elementary and Advanced Courses. In order to adapt the prac-

tice set to the specific needs of the trainees, the descriptive material on the company's accounting procedures and controls was expanded to permit satisfactory completion by the student of the Firm's "Questionnaire for Evaluation of Internal Accounting Control and Internal Check." In addition, an audit program was prepared following the Firm's usual format. The program was divided into interim and year-end work sections, with provision for signing off by the student as the work was performed. The inclusion of a wide range of auditing procedures was designed, in part, to familiarize the students with various auditing procedures and, of greater importance, to give the students practice in evaluating an audit program.

Upon completion of the internal control questionnaire and the prescribed auditing procedures applicable to each major section of the practice set, the student was expected to comment on any

Section C

Row 1—Instructors (Bottom Row)

F. C. DEISHER (Birmingham), D. KRELL (New York), J. P. BULEZA (Cleveland).

Row 2

H. L. RUDIO (Boston), J. P. SULLIVAN (Chicago), E. WEINBERG (New York), N. N. GRIFFIN (Detroit), G. A. GRECO (Hartford), P. PIKE (Los Angeles), G. MOLENTER (Philadelphia).

Row 3

W. H. SNYDER (Pittsburgh), E. J. GEILS (New York), G. B. WILLIAMS (Rockford), J. M. SMITH (Boston), M. C. WALKER (Chicago), J. A. GIUFFRE (New York), A. C. STIPA (Philadelphia).

Row 4

J. R. WICKS (Detroit), R. J. SMITH (Hartford Office), D. E. HALLOCK (New York), L. R. WONDERLY (Philadelphia), J. E. YOUNG (Rockford), J. J. VECCHI (Boston), P. L. HASSMAN (New York), R. S. FORD (New York).

Row 5 (Top Row)

R. T. KOESTER (Dallas), R. R. YOUNGER (Chicago), E. W. SPIETH (Cologne), L. T. RICCARDO (New York), P. ROSSI (Los Angeles), J. S. VOTGLE (New York), K. D. WILLIAMS (New York).

audit steps which should be added, deleted, revised, or performed at a time other than that called for by the program. This critical review of the audit program emphasized to the trainees the relationship of a specific system of internal accounting control and internal check to the selection, extent of application, and timing of auditing procedures.

Reading assignments included applicable chapters of "Montgomery's Auditing" and the Course Manual containing supplemental material written by the instructors. The Course Manual is designed to explain and illustrate, largely by use of examples, various sections of the related chapters in "Montgomery's Auditing." This material was used on an experimental basis by six colleges during the Spring Semester of this year, as follows:

School of Commerce, University of Alabama
Graduate School of Business, Columbia University
Graduate School of Business Administration, Harvard University
School of Commerce, University of Iowa
School of Business and Public Service, Michigan State University
College of Business Administration, University of Texas

The comments from these schools were uniformly enthusiastic. The experiment will be repeated at the Graduate School of Business Administration, Harvard University, for the full academic year of 1959–1960, and for one or more semesters at Cornell University, Duke University, Northeastern University and Northwestern University.

Seminars were presented by partners and members of the staff as follows:

Subject	*Speaker*
Firm Organization:	
Central Firm and Audit Staff	N. J. Lenhart
Tax Department	N. E. Auerbach
Management Services Department	H. C. Heiser
Coopers & Lybrand	J. J. Mahon
Historical Development of Auditing Standards:	
McKesson Case and Influence of the S.E.C.	L. C. Moscarello
Drayer-Hanson, Thomascolor and Seaboard Finance Cases	W. J. McHugh
Punched Card Accounting and Auditing Applications	J. J. O'Donnell, Jr. H. W. Bader
L. R. B. & M. Personnel Policies:	
Personnel Policies	G. O. Petty
Relationships with Clients and Staff	R. G. Ankers
Attitudes and Aptitudes	P. L. Defliese

All of the seminar speakers, in response to questions and as part of their talks, offered suggestions and advice which will be useful to the new staff members. The School was particularly indebted to Mr. Lenhart for his presentation and forthright replies to many searching questions on the eve of his retirement.

A number of individuals visited the Elementary Course, including Mr. L. W. Matusiak, Director of Professional Development of the AICPA, and his assistant, Mr. A. A. Fioriti. Mr. Eduardo Casillas, staff member of Despacho Roberto Casas Alatriste (Mexican member of the international firm of Coopers & Lybrand) also observed the operations of the School. Dr. Eberhard W. Spieth, who is a member of the staff of Treuhand-Vereinigung, A. G. (German member of Coopers & Lybrand) participated as a student in the Elementary Course. Dr. Spieth is temporarily attached to the Detroit Office.

The Advanced Course

Although the Advanced Course represented essentially the reconvening of the 1958 Elementary Course, there were a number of changes in the student body. These resulted principally from temporary separation from the staff for service in the Armed Forces, from pressing engagements, and the enrollment of a number of trainees who did not attend the 1958 Course. All of the members of this Course had the benefit of at least ten months' experience in the field.

The Course program included some refresher training such as the review and elaboration of auditing procedures and related working papers concerning cash, receivables, inventories and tax allocation. Many of the problems which the students had encountered in the field were analyzed and discussed. The subjects for

Class Lecture—Drew University

Classroom Study Session—Drew University

this review were determined by means of questionnaires completed by the students and from comments and criticisms solicited from managers and supervisors for whom the trainees had worked.

The instructors received, prior to the beginning of the Course, summaries of the personnel reports submitted on the auditing ability of each individual as demonstrated during the ten-month period following the Elementary Course in 1958. These had been reviewed with the trainees in each office prior to the Course. The combined personnel data for all trainees were summarized and this summary was reviewed and discussed with the students as a group. In this way, each trainee was in a position to relate his personal progress to that of the class as a whole. Suggestions and remedial work were also provided by the instructors on an individual basis during the Course.

The major part of the program was devoted to advanced training. The subjects covered included the preparation of the financial statements and schedules required for the S.E.C. annual report (Form 10-K), short and long-form reports, federal income tax returns and internal control letters based in large measure upon the working papers prepared in the Elementary Course in 1958. The importance of adequate working papers became apparent very quickly to the trainees in the Advanced Course.

The subjects listed above were supplemented by class problems, all of a practical nature, and by written assignments. In addition, a careful analysis was made of the auditor's report and the financial statements included in the published annual reports of five corporations.

In prior years, the Advanced Course included tax sessions related principally to the tax phases of the practice set. In addition, the Tax Department in each office conducted a Tax Principles

and Return Preparation Course. This year, for the first time, the tax principles course was completely integrated as a formal part of the Advanced Audit Course under the immediate direction of Mr. Sidney Kess of the New York Office. The tax sessions were presented in the final four days of the Course; the instruction was directed by four tax specialists with the assistance of the twelve audit instructors who had supervised the prior auditing and reporting phases.

The training provided in this course was somewhat advanced for men of such limited experience; nevertheless, it is felt that they will derive both immediate and long-range benefits. In the immediate future these men will understand more fully the information needed in working papers and the use to which such information will be put. Later, when called upon to prepare tax returns or reports, they will be better equipped to the extent that they will have followed the necessary procedures at least once before and will be acquainted with the Firm's approach and references which may be consulted. Accordingly, advancement to the senior and supervisory levels should be facilitated.

New Dining Hall—Drew University

A New Look at the Approach to Auditing

By Reed L. Colegrove

Introduction

Many time-honored auditing procedures and techniques were subjected to some rather critical cross-examination and appraisal during two conferences held in the New York Office in May, 1959. The principal purpose of these sessions was to assess present audit practices of the public accounting profession in the light of (a) current thinking on the relationship of internal control to audit requirements, (b) limitations on the auditor's responsibility for the detection of fraud and (c) possible efficiences which might be achieved in the administration and conduct of an audit. The approach to the problem was objective; results, both interesting and, hopefully, constructive, were attained by drawing on the experience of the various offices represented.

The conferences were attended by approximately 150 supervisors and seniors from our Baltimore, Birmingham, Boston, Hartford, Louisville, New York, Philadelphia and Pittsburgh offices. Each of the two-day sessions was, except for two central lectures, conducted on a group discussion basis. Each discussion group, comprising about twenty-five men and three discussion leaders, pursued independently the dissection of an audit program, within a generally predetermined frame of reference. Discussion leaders were armed with a set of questions designed to promote discussion and critical analysis of auditing practices and techniques applicable to each of the various phases of an audit. Under the stimulus of these questions, the group discussions were, for the most part, lively and informative.

Introductory Central Lecture

The perspective of each conference was established with a central lecture emphasizing the importance of the review of internal accounting control and internal check in determining the scope of the examination, and pointing up the position which our Firm and most of the profession have taken with respect to limitations on the auditor's responsibility for the detection of fraud.

Throughout the conferences stress was placed on the significance of the client's internal control in relation to the scope and timing of each phase of the audit. It was pointed out in the opening

lecture that audit program requirements cannot possibly be intelligently determined without an adequate knowledge of the client's internal control. As stated in the second standard of field work, "There is to be a proper study and evaluation of the existing internal control as a basis for reliance thereon and for the determination of the resultant extent of the tests to which auditing procedures are to be restricted." Participants were reminded that deficiencies in internal accounting controls (those controls designed to bring about accurate and suitable recording and summarization of authorized financial transactions) will affect the volume and extent of the work to be done. For example, more independent testing of inventory extensions and footings would be required where the inventory was manually extended and footed and such extensions and footings were not checked by client's personnel than in the case where the inventory was listed by a machine providing automatic totals, or where the manually prepared inventory was subject to independent verification by someone within the client's organization. On the other hand, weaknesses in internal check (controls which safeguard assets against defalcations or other similar irregularities) will primarily affect the timing of audit procedures, with a somewhat lesser influence on the extent of the work. Poor physical control of inventory, for example, would probably require the observation of physical inventory-taking by the independent auditor at the balance sheet date rather than at an interim date. By the same token, if accounts receivable are under the direct control of the credit manager, or if bank statements are reconciled by the cashier, the confirmation of receivables and independent reconciliation of bank accounts by the outside auditor should probably be done as of the balance sheet date to satisfy himself as to the integrity of the balances on which he is expressing an opinion.

The responsibilities of the Certified Public Accountant in the area of discovery of defalcations and other similar irregularities has been well defined by the American Institute of Certified Public Accountants. Certainly the position of our own Firm is that in the ordinary examination leading to the expression of an opinion on the financial statements we do not assume such responsibility. It is, in fact, Firm policy that such an understanding be reached, in writing, with all of our clients. The significance of this position in relation to audit program requirements was also dealt with in the introductory lecture. It was pointed out that

certain procedures followed by some auditors, including surprise cash counts, surprise security counts and the witnessing of payoffs, are designed largely for the detection of fraud, and as such are probably not necessary in the usual examination leading to the expression of an opinion on the financial statements. It was also pointed out, however, that the auditor does have a responsibility for advising his clients of weaknesses in internal check where such weaknesses exist, based upon his review of internal control (which in our own Firm derives primarily from answers to Part II of the Questionnaire on Internal Control).

If testing is required to evaluate internal check procedures then such testing should properly be included in the audit program. The important distinction is that such tests be designed to evaluate procedures, not to detect defalcations. In this connection it was noted, however, that most procedural testing is done in connection with internal accounting controls rather than internal check.

It is quite possible that some clients may expect their outside auditors to perform certain audit steps which the auditor may feel are primarily for the detection of fraud. In such cases the client may object to the elimination of these steps from the audit program. It was suggested that such clients be tactfully advised that they are paying for "extras" not requisite to the expression of an opinion on the financial statements. Most C.P.A.'s are glad to provide any extra service which the client wishes to buy, but the fact that such service is not included in the "standard audit contract" should be understood.

Discussion Sessions

At the conclusion of the introductory lecture the participants were assigned to discussion groups, each group to consider independently the various sections of the audit program in the light of the opening comments.

The first question posed in each discussion group was "Is it necessary to count petty cash, assuming that cash on hand is not a material item in the balance sheet?" The conclusion, after discussion of the pro's and con's, was that except in rare circumstances, or unless specifically requested to do so by the client, it was not necessary to count cash on hand. Internal check and internal accounting controls relating to cash on hand can be evaluated by discussion with the client and by the examination of

petty cash vouchers and other supporting data. Counting of cash does not in itself assist in this evaluation; counting is done primarily for the possible discovery of a shortage (that is, the detection of fraud). In those instances where cash on hand might be considered material in relation to total assets it was agreed that such cash was generally under the close surveillance of internal auditors, and that the outside auditor can usually limit his examination to a review of the working papers and reports of the internal auditors.

This analytical approach to the question of "Is such a procedure necessary and/or is there a more practicable substitute?" was typical of the modus operandi in the discussion groups. A number of questions dealing with procedures generally followed in the various phases of an audit were put to each group by the discussion leaders. Each question was considered within the framework of the introductory central lecture; that is, is the procedure designed to evaluate the client's internal controls or is it designed primarily to detect fraud; is the procedure adequate; could the same conclusion be reached with less work or with a different approach; is the timing of the work proper in the light of existing internal check; is adequate use made of client's personnel? The conclusions reached were not unanimous, but the trend in thinking within the groups was fairly obvious in most cases.

Outlined below are some of the questions which were raised and the general conclusions which were reached in the group discussions. In some cases the questions have been omitted where their context is apparent from the conclusions reached.

Cash: What should be the extent of the work of the outside auditor with respect to imprest balance and "one-way" bank accounts? In most instances an independent reconciliation and proof of cash will probably not be necessary. The auditor's examination can generally be limited to an interim review of the client's procedures and controls, possibly integrated with his procedural tests of payroll and vouching. With respect to "one-way" accounts this review should include the checking of bank transfers, the timing of the audit tests depending on the degree of the client's internal check. Bank balances should be confirmed at year end and confirmations should be traced to the client's year-end reconciliations. Wherever possible, internal auditors should be encouraged to make at least one of their reconciliations of these accounts at the balance sheet date.

What abbreviated cash procedures can be applied to the audit of general bank accounts? The answer to this will depend largely on the client's internal accounting control and internal check. If internal controls are satisfactory, year-end work can generally be limited to obtaining cutoff bank statements subsequent to the year end for checking reconciling items, to proving the arithmetical accuracy of the client's year-end reconciliations and to checking interbank transfers. In connection with the interim examination of bank accounts it may be satisfactory to work with the client's reconciliations if certain additional steps are followed, such as the examination of bank cancellation dates, but it will generally be quicker to obtain cutoff statements directly from the bank for a short period and to prepare independent reconciliations and proofs of cash. Since the interim test is primarily a procedural one it does not seem necessary to cover all general bank accounts in an interim review. Where the client's procedures for all bank accounts are similar, such procedures can be evaluated as effectively by working with one account as with ten. By the same token it should be possible to evaluate procedures as readily by testing transactions for a few days or a week as by reviewing an entire month, as is sometimes done.

In response to several questions the following additional conclusions were reached relating to cash audit procedures. Obtaining duplicate deposit slips from the bank is not a practical audit procedure since, except in rare instances, banks do not check the details of deposits. Checks outstanding and uncleared as of the prior year's balance sheet date should not be examined in the subsequent audit; any question as to such items should have been cleared by the examination of supporting data prior to the expression of an opinion. It is unnecessary to examine endorsements on checks, particularly where the client does not perform such a step. It is not necessary to write check numbers on outstanding check lists or to indicate subsequent clearance of checks on the auditor's outstanding lists; he should work directly with the client's records and list only those items remaining uncleared which require followup. It is unnecessary to schedule and follow up checks drawn to cash or to employees; such items should be reviewed in connection with the voucher test.

Receivables and Prepaid Expenses: When receivables are confirmed at an interim date (which, it was decided, can be done in all instances except when internal control, particularly internal

check, is not satisfactory) the consensus was (a) that further confirmation is necessary at year end only in very rare cases, such as the existence of extraordinarily large balances, a radically different mix of accounts or unsatisfactory results from interim confirmation requests; (b) that no checking (either footing or tracing balances to detailed records) of year-end trial balances is necessary, assuming that such tests were performed at the interim date; and (c) that year-end work should be limited to a review of transactions since the confirmation date and the investigation of unusual fluctuations or postings from other than normal sources.

The use of positive confirmation requests should be limited to unusual circumstances, such as balances of outstanding materiality, a few large customers, or balances in dispute.

What are the "rare" circumstances when alternate procedures in lieu of confirmation are acceptable? Generally accounts with the U. S. Government cannot be confirmed (although the experience of several participants indicated that where sufficient detail is furnished confirmations can be obtained from some government sources). When no reply has been received to several positive confirmation requests or when a reply indicates inability to confirm, and in certain instances when a client's request that no confirmation be sent is deemed valid, alternative procedures may also be acceptable. When alternate procedures are determined to be appropriate the mere tracing of collections to the cash receipts book was not considered to be conclusive evidence of the existence of the asset; tracing cash receipts should be supplemented with an examination of shipping documents, remittance advices or correspondence files.

What constitutes a reasonable sample of accounts to confirm? It was concluded that each case must be determined in the light of existing circumstances, such as the total number of accounts, the average dollar balance of accounts, the extent of internal audit confirmation, and the adequacy of the client's internal controls.

It was decided that in most instances the auditor can rely on client personnel to follow up routine differences disclosed by confirmation replies, provided such personnel are independent of the function of recording transactions in customers' accounts. It was also considered unnecessary to schedule differences of a minor or routine nature.

In connection with the examination of prepaid insurance, tests should be made by working directly with the client's insurance

register when one is maintained, scheduling only a summary by types of coverage and related prepaid amounts; when the client does not keep an insurance register the details of larger prepaid amounts only should be scheduled for testing. It did not seem necessary, to most participants, to examine all insurance policies in force; alternative procedures suggested were the obtaining of confirmation of coverage from brokers or the examination of brokers' invoices.

Inventories: With respect to the observation of physical inventory taking by the outside auditor, it was agreed that his primary objective is not to accumulate a large volume of his own test counts, but to ascertain that the client is taking an accurate and complete inventory. In other words, test counting should be placed in its proper perspective as a tool for evaluating the client's procedures.

It was also agreed that very rarely should it be necessary for the independent auditor to control inventory tags. Rather, he should ascertain that provision has been made for adequate control by the client's personnel, and his test should comprise an examination of control records for compliance with procedures established.

In making a review of inventory pricing and cost records the auditor should work directly with the client's records as much as possible, and avoid accumulating a great mass of schedules in his own working papers.

When physical inventories taken and priced by the client are tested by the auditor at an interim date, his year-end work will generally consist of (a) a review of transactions from the inventory date to the balance sheet date for unusual fluctuations or postings from other than normal sources, (b) a comparison on a test basis of unit costs at year end with those tested at an interim date, (c) a review of gross profit percentages during the intervening period and (d) a review of the relationship of selling prices at the interim date with those at year end. Most of this can be done by working directly with the client's records, and the working papers need include only a write-up of work done and comments thereon.

Techniques of testing extensions and footings of inventory summaries can be improved in many cases. Sight testing can be employed to good advantage in most footing tests as well as in testing extensions. Too much importance is frequently placed on checking the precise accuracy of the client's computations; gener-

ally it should be satisfactory to approximate the client's balances by sight testing. Since the misplaced decimal is the most frequent cause of extension errors, this problem should be emphasized in extension tests.

Fixed Assets: It was the general concensus that the procedural testing approach is just as applicable in the examination of fixed assets as in any other phase of the audit work. Too often the auditor is prone to feel that it is necessary to vouch all major fixed asset additions during the year regardless of the effectiveness of the client's accounting procedures and internal controls. It seems reasonable to assume that if a review of internal controls relating to fixed assets indicates that procedures and controls in this area are good, the auditor's examination can be limited to an evaluating test of such procedures in an interim period and a general review of transactions for the year, with an investigation of unusual items.

It does not seem necessary to fill the working papers with voluminous schedules of the details of fixed asset additions and retirements. Testing can be just as effective if it is made directly to the client's records and the papers include only a write-up of work done and exceptions noted for follow-up. Fortunately the auditor is not paid by the pound of working paper content, although some may be inclined to operate as though the issue was in doubt.

Is it necessary to vouch repairs and maintenance expense? Probably not. If the client has a well defined policy of accounting for capital and expense items, and if this is tested by including charges to repairs and maintenance in the regular voucher examination, there does not seem to be any justification for additional vouching of this account. A comparison of monthly balances and an investigation of unusual fluctuations should disclose any material deviations from prescribed procedures.

Liabilities: How much vouching should be done of year-end accounts payable? Assuming that an interim voucher test had been made, the answer to this question was that with very rare exceptions no vouching of accounts payable should be done at year end. By the same token there are few if any occasions for requesting confirmation of accounts payable. It is difficult to justify the verification of year-end trade payables and at the same time take the position that no year-end verification is required of inventories and customer receivables if interim tests have proved

satisfactory. There is certainly logic to obtaining satisfaction as to recorded payables at the balance sheet date through an interim review of procedures for recording liabilities and through a review of unusual fluctuations between months in the contra debit accounts. The year-end examination can then be confined to a search for liabilities which may not be recorded rather than verification of those which have been recorded.

It was agreed that in some cases the auditor may be guilty of too much work and too much scheduling in connection with his examination of the liability for payroll taxes withheld and accrued. It seems unnecessary to schedule the details of taxable wages, tax rates and quarterly payments for the entire year. A review of quarterly returns and payroll records and the examination of subsequent tax payments should generally suffice. There is also no reason, in most cases, why the payroll tax liability cannot be tested as of the end of a quarter during the interim examination, and balances at that date compared with those at year end.

Income, Expenses and Procedural Testing: In connection with vouching and sales tests is a representative selection (or selected transaction) approach more, or less desirable than a period test? The period test has been described as the "two-pile" method, meaning that all vouchers or sales invoices for a selected period are placed in a pile, examined one by one, and placed in a second pile. When the first pile is exhausted the test is over. This technique has the merit of simplicity and a flexibility of manpower requirements (in that it would presumably require a less imaginative approach). The selected transaction approach involves the selection of one or more samples of every typical transaction, either purchase or sale, recorded during the year (or year to date of test). The selection should probably be made from the books of final account (that is, the general ledger or subsidiary ledgers) to insure complete coverage of all major types of transactions. Each transaction selected is reviewed from its inception to its completion as to authorization, documentation, clerical and supervisory review, accounting distribution, and general propriety. This approach has the advantage of providing a broader coverage and, consequently, a better insight into the over-all operation of the company. It does not involve the limitation of reviewing only those transactions falling within a selected period, or the nonproductive time consumption inherent in examining a number of

similar transactions. In balance, the selected transaction approach appears to offer more benefits than the period test.

It was generally agreed that, wherever possible, scheduling the details of vouching, payroll and sales tests should be avoided. A write-up of work done and exceptions noted will generally suffice.

In discussing which income and expense accounts, if any, should be analyzed by the auditor it was concluded that it should not generally be necessary to analyze contributions, officer salaries, professional services other than legal, and travel and entertainment. There may be some merit to obtaining (from the client whenever possible), analyses of legal fees (for the possible disclosure of unrecorded or contingent liabilities), miscellaneous expense (for possible misclassifications) and nonoperating income and expense. In general, the investigation of unusual fluctuations from month to month is preferable to the analysis of specific expense accounts.

Administrative Planning of an Audit

In addition to the consideration of audit procedures and techniques, the conference agenda included a central lecture and group discussion on the responsibilities of the supervisor and senior with respect to the administration of an audit.

The central lecture dealt with preliminary planning and on-the-job administration, and various aspects of audit administration were then touched on in group discussion. In the area of preliminary planning, the following matters were covered:

Pre-Audit Review and Contact with the Client: Suggestions in this area for the consideration of supervisors and seniors included (a) a review of the prior year's questionnaire on internal control and a review of the audit program, with a view to revising and updating the program, (b) a review of the correspondence file for recent developments which might have a bearing on the audit and (c) a review of work done by the client's personnel in prior years and preparation for similar work during the current examination. Such preparation might include furnishing the client with stationery and a list of schedules to be prepared, and arranging for the use of client's personnel as assistants working directly on certain phases of the audit. In this latter connection consideration was given by the discussion groups to the question of those phases of the audit in which it is feasible or desirable to use the client's personnel. It was concluded that the requisites for such use are

that the employee be independent of the activity he is auditing, that he have the ability to do a competent job, and that his work not result in the substitution of his judgment for that of the independent auditor. Work requiring such exercise of his judgment, and therefore not suitable for assignment to other than the auditor's own staff, would include vouching, payroll and sales tests, the reading of minutes and contracts, etc. Work which might properly be assigned to client's personnel would include physical inventory tests, preparation of trial balances, cash counts, bank reconciliations, receivable confirmations, 10-K schedules and various balance sheet and expense account analyses.

The Pre-Audit Conference: It was suggested that prior to commencing the audit, the supervisor or senior should discuss with the manager such matters as manpower assignments to various phases of the work, locations to be scheduled for examination, plans for physical inventory observation and accounts receivable confirmation, and changes in the audit program.

Letters of Instructions to Other Offices: When other offices are to be requested to perform part of the examination it was recommended that a preliminary letter be sent to each such office advising of the engagement. In addition, a letter of specific instructions should be written, to accompany the audit program and working papers of the previous examination, covering such matters as (a) the scope of the examination, (b) the suggested classification of men required, (c) a time budget, (d) a deadline for completion of the work, (e) the type of finished product required (i.e., working papers, letter report, rough draft of financial statements, letter on internal control, etc.), (f) a request that the working papers include a summary of audit findings, comments on internal control, suggestions for revision of the audit program, and a comparison of actual and budgeted time with an explanation of variances, and (g) comments arising from a critical review of working papers from the previous audit, with a view to improving the current year's examination.

The discussion of on-the-job administration included the following comments and suggestions:

Working Papers: One of the most important criteria of good working papers is that they stand the test of time and be as intelligible in five years as when they were prepared. Meaningless

schedules and miscellaneous notes and "to do" lists of no lasting value should be eliminated. The papers should be free from questions or comments which are unanswered or to which explanations are vague or unintelligible. Audit findings should be summarized in the front of the first binder. Supporting schedules should tie in to the trial balance. All work of assistants should be reviewed by the supervisor or senior with the above points in mind.

Conferences with the Client: Findings of interim audits should be discussed with the client at the conclusion of the preliminary work and followed up at the year end. Possible year-end adjustments and matters pertaining to statement presentation (including such questions as comparative statements, penny elimination, combining of captions, etc.) should be discussed prior to the year end, if possible, to permit a considered decision by the client. (Worthwhile suggestions are sometimes turned down solely as a result of poor timing.) Also prior to year end it is desirable to work out with the client a year-end closing schedule or timetable for the accomplishment of various phases of the work by both parties.

Preparation of Reports and Statements: One of the principal questions discussed in this connection was what, if any, footnotes might be required in the financial statements on which the auditor is reporting. Particpants were reminded that any of the following general circumstances might require foot note disclosure if they were applicable to the client at the examination date or during the period under review: restrictions and liens on assets; unusual commitments (for purchases or with respect to bonus plans or stock options); contingencies (lawsuits, taxes, etc.); changes in accounting practice (such as the adoption of LIFO inventory costing); failure to adhere to generally accepted accounting principles; events subsequent to the balance sheet date; or other matters requiring explanation to the prudent reader (such as tax effect accounting, pension plan provisions, or depreciation policy). With respect to each footnote determined to be necessary, participants were also reminded of the importance of disclosing all pertinent facts as concisely as possible, and of the necessity for determining whether any footnotes require a qualification in the auditor's report. It was pointed out that a qualification is required when there have been limitations on the scope of the examination, when there has been an inconsistency of accounting treatment as

between the current and the prior year (as to which the auditor must state that he concurs or does not concur), or when the client has failed to apply generally accepted accounting principles. A qualification must be explicit and its effect upon the auditor's opinion and upon the financial statements must be clearly indicated. "Subject to the above" or "with the above explanation" in reference to an explanation in the scope paragraph or in a separate paragraph of the audit report, followed by "in our opinion . . . presents fairly", is not generally considered to be a satisfactory qualification since it leaves the reader without a clear understanding of the effect of the explanation on the financial statements and on the auditor's opinion.

Preparation of the Questionnaire on Internal Control: Participants were advised that since a review of the client's internal control is the cornerstone upon which the audit is built, the importance attached to and care taken in this review cannot be overemphasized. In our own Firm the review of internal control is accomplished in large measure through obtaining answers to a questionnaire on internal control. While the instructions call for preparation of this questionnaire every three years, the most practical approach has been to prepare one-third of the sections each year. It was emphasized that the questionnaire should be prepared or reviewed before or during each phase of the audit by the staff man doing the work, and reviewed immediately by the supervisor or senior. Changes in the audit program indicated by answers to the questions should be initiated currently after consultation with the manager. Weaknesses in internal control ("no" answers not satisfactorily compensated for by alternative controls) should be summarized in the front of the questionnaire. At the conclusion of the examination the advisability of writing an internal control letter to the client should be discussed with the manager. If a letter is to be written, a draft should be furnished to the client for comment prior to submission of the letter in final form in order to minimize misunderstandings.

Final Review: Before leaving the job there are several matters which the supervisor or senior should take care of to complete his administrative responsibilities. He should make a critical review of the working papers, procedural write-ups and internal control questionnaire with a view to (a) appropriate revisions in the audit program, (b) the elimination of unnecessary working papers,

"to do" schedules and miscellaneous notes, (c) the timing of various phases of the audit in the ensuing year (including the possible shifting of more work from year end to an interim date) and (d) a more efficient budgeting of time in the next examination. Finally, he should submit to the manager a summary of time for the current year, with explanations of variations from the budget, and a budget for next year's audit with related personnel requirements.

Conclusion

As has been indicated, the conference agenda included a wide variety of subject matter. It is fair to assume, however, that there are always further potential benefits to be gained through the exchange of ideas among staff men. The initial success of such a conference is dependent upon an active participation by all those in attendance. Judged by this standard the two conferences held in May, 1959 were eminently successful. The ultimate measure of achievement will depend on the application of new ideas obtained at the conferences to our own audit programs and to the administration of our audits, when and if such application is appropriate. Auditing is not an exact science. Certainly auditing procedures and techniques should be neither static nor inflexible.

The Management Control Course

By Vincent R. Collins (Boston Office)

Thirty men from 14 offices participated in a course in management control held at Phillips Exeter Academy, Exeter, New Hampshire, June 8-19, 1959. Approximately one-third of the participants were full time management services specialists; the others are primarily engaged in audit activities.

The course material was selected and prepared under the direction of Dr. Neil S. Harlan and Dr. Earl D. Bennett of Harvard University. Most of this material consisted of case studies and included several prepared from L.R.B. & M. engagements in the management services field.

Participants in the Management Control Course

1st Row

Don Brondyke (Detroit), Stephen L. Bires (Dallas), James E. Meredith, Jr. (Philadelphia) *Lecturer*, Earl D. Bennett, HBS, *Instructor*, Neil E. Harlan, HBS, *Instructor*, Frank P. Smith (New York) *Observer*, Mark C. Walker (Boston) *Observer*, Carl E. Patton (Houston), Darwin M. Ley (Chicago).

2nd Row

William C. Swift (New York), Jack R. Vincent (Cleveland), Arthur L. Simon (New York), Lou Vlahantones (Detroit), Thomas A. Haeussler (Cincinnati), Karl George (Detroit), William R. Wilson (Boston), Robert L. Benson (Philadelphia).

3rd Row

J. Henry Owen (Birmingham), Valmond Poulin (Boston), Robert L. Turner (San Francisco), Everett Morris (Los Angeles), Edward W. Higbee (Boston), Robert C. Gray (Cincinnati), James R. Langdon (Philadelphia), George R. Fitzsimmons (New York), John Johnson (Los Angeles).

4th Row

John R. Berthoud (Hartford), Robert H. Kaiser (New York), Vincent R. Collins (Boston), Owen W. Robbins (Boston), Julius L. Ross (New York), Carroll W. Phillips (Dallas), Raymond L. Woodall, Jr. (Philadelphia), William H. Lundquist, (Philadelphia) Edward J. Rudnicki (Rockford).

The course covered a wide range of management controls including such topics as standard costs, joint and by-product costing, direct costing and reporting, budgets, cost-price-volume relationships, capital expenditure and leasing decisions, transfer pricing, allocation of assets and development of cost data for pricing and product mix decisions. The case study material also covered such technical topics as planning surveys, evaluating survey findings and planning systems design; analyses of the responsibilities and opportunities for service to management arising in audit engagements; and a number of small group discussions. For these discussions, the class was divided into a number of small groups and an individual selected for each group to report the recommendations and findings to the entire class.

Arrangements for the course were made by the Management Services Committee of the Firm, with the assistance of Dr. Harlan and Dr. Bennett. Most of the classroom presentations were made by Dr. Harlan and Dr. Bennett with the assistance of L.R.B. & M. personnel. Partners and staff members who assisted in the course or who attended some of the class sessions included William G. Casey, Howard N. Smith and Mark C. Walker (Boston), John J. Fox (Detroit), James E. Meredith, Jr. (Philadelphia), Herman C. Heiser and Dr. Michael Shegda, Management Services Research and Consulting Division, and Dr. Frank P. Smith, Educational Director.

Air-conditioned accommodations for the participants were provided at the Exeter Inn. No classes were scheduled for the week-end and, despite the lack of sunshine, recreational activities enjoyed by many of the class members included golf at the Exeter Country Club, a deep-sea fishing expedition, sight-seeing excursions along the Massachusetts, New Hampshire and Maine coasts and visits to points of historic interest.

Report on the Tax Training Program for Audit Personnel

By Sidney Kess (New York Office)

During the past year approximately 1,000 staff members participated in the various tax courses given by the Firm. The following courses were conducted:

Name of Course	*Number of Offices Conducting the Course*
Tax Principles and Return Preparation	10
Tax Review Course	20
Tax Problem Course	13
Short C.P.A. Review Course in Taxation	2
Tax Research Course	3
Massachusetts Taxation	1
Technical Amendments Act of 1958	2
Estate Tax Course	1
Individual Course	1

As part of the Advanced Central Audit Training Course held at Drew University in June, 1959, the Tax Principles and Return Preparation Course was given to approximately 135 staff members.

It is estimated that 75 tax meetings were held for the staff since September, 1958.

The Senior Staff Conferences

By R. W. Egner (New York Office)

Two staff conferences for audit seniors were held in the staff training rooms in the new quarters of the New York Office on May 14-15 and May 21-22, 1959, and were attended by 123 audit seniors from eight domestic offices.

The introductory remarks and the general theme of the meetings were presented by Frank P. Smith, Educational Director. The program itself, beginning with a central lecture on internal control, procedural testing, the detection of fraud and its effect on the audit program, covered the principal areas of audit and the application of various audit techniques in each area.

The participants were divided into three groups with discussion leaders presenting the subjects to be developed. Individuals were requested to outline audit procedures used on jobs to which they were assigned for the purpose of permitting the evaluation and comparison of procedures by the other participants.

The discussion leaders, operating in teams of three, were L. P. Deering (Baltimore), Frederick C. Deisher (Birmingham), Melvin A. Dyson (Boston), Andrew A. Karpuk (Hartford), Reed L. Colegrove, Robert W. Egner and Louis C. Moscarello (New York), William B. Keast (Philadelphia) and Leonard Wood (Pittsburgh). Observers from other offices were William R. Richards (Chicago), Edward E. Bolle (Detroit), Norman A. Erickson and Marshall M. Johnson (Los Angeles).

Senior Staff Conference—the lecturer is Louis C. Moscarello of the New York Office

How Punch Card Accounting Can be Used by Small Colleges*

By Howard N. Smith (*Boston Office*)

After a few introductory remarks, the major objectives of this talk will be twofold: *first*, to illustrate that punched card accounting is practical for small colleges; and, *second* to present a proved procedure for the transition to punched cards.

I will avoid details and omit much of what you have often heard from machine salesmen. The subject is far too timely. It is directly related to the two principal problems confronting higher education today—rapidly increasing enrollments and lack of funds for both present needs and future growth.

Both problems promise to become even more acute as the demand for college education multiplies. Every educational institution will be affected. More buildings, dormitories, and other facilities will be needed. Faculty salaries and operating expenses will rise. More and more students will be buying their education on credit. Indeed, every area of the operation will become more complex.

As business officers, each of you must strive to provide your organization with the best accounting system and fiscal controls available—ones that will not be crushed by this inevitable expansion. You must insure that every dollar you have is well spent, and that you are equipped to obtain more funds as the need arises.

A recent experience of mine might be of interest to you at this point. It concerns the substantial gifts that selected colleges and universities are awarded by educational foundations, such as those maintained by many of our giant industrial corporations. I recently spent several hours here in New York with the executive director of one of the largest of these foundations. I asked him how the distribution of these grants to various colleges was determined.

His company's foundation favored the smaller colleges. It assumed that the larger ones were well supported from other sources. However, the main consideration was how effectively the grant would be spent. I then inquired as to how he measured this

*This paper was presented at a work shop clinic of the Eastern Association of College and University Business Officers, New York City, February 23, 1959.

efficiency factor. His answers were emphatic, and of vital concern to all of us here. He stated that his company and anybody else who was able to make sizeable contributions acquired the wherewithal to do so through hard work and top efficiency in business management. Therefore, his company would not make grants to an institution that would not obtain full value for each dollar received.

In implementing this policy, he had visited scores of colleges and universities, reviewing their business methods and fiscal controls in great detail. He was the best informed man I have ever met on the problems of college business officers and practices at selected institutions. College managements were all rated by him and needless to say those that did not measure up to his standards of efficiency were not on the approved list to receive grants. His yardstick was that of a businessman operating a large and complex business. Budgets, fiscal controls, costs, plant maintenance, food service, dormitories, classroom utilization and many other subjects were factors in determining the final rating of the institution.

Of course, we all strive to get top efficiency in business management. To obtain it, however, we must make full use of the tools available for this purpose. In the area of accounting and data processing, a full line of tools is available, from electronic computers to simple bookkeeping machines and including pencils and erasers. One of the mechanical aids for office work that has definite advantages for small colleges is punched cards.

The evolution of the punched card has taken full cognizance of management's growing requirements. It is no longer a luxury for the large and wealthy organization. It has become a fundamental technique for enterprises of moderate size with complex problems of fiscal control. Indeed, the punched card can help to reduce the complexity of present day accounting work into a quick, simple, and economical operation.

Punched card methods, therefore, demand the serious consideration of all college administrators.

Why Punched Cards Are Practical

A complete basic punched card installation can now be rented for the equivalent of two clerical salaries. The holes in the card are the means for directing high speed machines to perform various clerical, accounting, and reporting tasks. The card—once punched and verified—can produce various permanent records.

It is amazing what that little hole in the card can do.

1. It can add, subtract, multiply, or divide.
2. It can test, select, or classify itself.
3. It can reproduce itself and punch itself on another card.
4. It can produce an automatic balance forward.
5. It can post itself and file itself.
6. It can cause a total to be printed.
7. It can compare itself with something else.
8. It can even cause a form to feed to a predetermined position, to be ejected automatically, or to space from one position to another, enabling reports, checks, or various types of documents to be printed.

I doubt if you will find two clerks anywhere who can do all these things. I am sure you will not find two who can do any one of these at a speed of 3,000 per hour, or who can type checks or reports at 3,000 lines per hour, the speed of the lowest priced installation. Further, the machines have no ailing relatives, wayward spouses, or unpredictable lovers to take their minds off their work. They won't daydream, gossip, or take coffee breaks. They can even work overtime without falling asleep on their feet the next day. They need not be included in group insurance or employee pension plans.

I will emphasize repeatedly that punched cards are not difficult to master. They do not require a completely new staff of highly trained specialists. The adoption of punched cards requires only courage, vision, and planning, but these elements are inherent in educational institutions. We need merely to invoke some positive thinking to counteract whatever apprehensions there might be about the complexity of machine methods.

We know that the day of the high perched clerk with his green eye shade and quill pen is past. We also know that his successor, the bookkeeping machine, excellent though it may be and is for some applications, is still not the best for all jobs. Tremendous strides forward have been made in the development of mechanical aids for office routines and we should adopt them whenever they can be proved to be practical. The fundamental principles of scientific management should be applied in small colleges as well as in businesses and large universities. The gift policies of the educational foundation we discussed bear this out.

I received living proof of the simplicity of punched cards when all university accounting at Harvard was converted to them. During the entire transition, which took but ten months, Harvard

hired only one man with punched card experience. Others, including key punch and machine operators, were trained with the system installation from the *existing* staff. This, mind you, was for a very large and complex institution, and was back in 1941 when many people likened an IBM machine to a missile from outer space. The transition to punched cards was relatively painless. The resulting speed, accuracy, versatility, and economy justified the change.

Furthermore, the war came within the year, with its unprecedented wave of new demands. Then came the postwar period, bringing rapid growth in enrollment, veterans' problems, and several other new aspects to university accounting. The punched card system at Harvard handled this all in stride. It did not crumble and was not even strained. It is substantially the same now as it was in 1941.

More recently I have had similar experiences. At one university of 25,000 students, all income and expenses were converted to punched cards within eight months. There is no reason why the small college cannot enjoy the same degree of success with punched cards.

I previously stated that the cost of the lowest priced installation, including rental and auxiliary expenses, would be about that of two clerical salaries. Further, I understand that one machine company will shortly announce an installation with similar capacity for about half of the present rental. The others will no doubt follow suit. At these prices you cannot lose.

However, a punched card system is not something you can buy in a department store. It will justify itself only if used properly and to the fullest extent possible. To do this is simple if your approach is correct and if you have the genuine desire to improve the efficiency of your procedures. It is no more difficult to install punched cards in the twentieth century than it was to install typewriters in the nineteenth.

Just how will a punched card system help you?

First, it will lend speed and accuracy to record keeping and accounting tasks.

Second, it will make available information on operations that might otherwise be inaccessible. Such information, speedily produced, may dictate changes in emphasis and methods, and perhaps mean the difference between the operation of a fund or an area in red or in black.

Third, it will provide flexibility to meet new and special demands as well as capacity to meet growth and expansion without the necessity of revisions, as it did at Harvard.

Fourth, it will produce many by-products in addition to college accounting: for example, alumni records, student information, statistical reports, accounting for auxiliary enterprises, and many others.

Fifth, (and I emphasize this because it answers a question frequently asked) a properly integrated punched card system may save money almost from the start, even as it increases the value of the information it produces.

It goes without saying that these advantages are worthy of your interest and support.

A discussion in detail of these five advantages of a punched card system would take us far beyond our allotted time. I can say almost without reservation that any small college with an enrollment numbered in the high hundreds can now find economies in using punched card methods. I have seen cost versus savings studies made time and again and have made several myself in colleges of all sizes. The results have been uniform. Even if the decision were to be made on the basis of savings alone, the punched card method would be adopted. Add to this the other advantages I have mentioned and you have a solid basis for considering the conversion of your entire accounting operation to punched cards.

Procedure for Conversion

Now that you have all agreed that you are going to convert to punched cards, we come to the second part of this presentation; what is the best way to do it.

You must first realize that conversion requires extensive planning and thought. Punched cards will not automatically achieve your objectives. The system will be no better than the thinking and planning that goes into it. There is no stereotyped punched card system that will work for everybody. The adoption of punched cards does more than merely modify existing office routines; it creates radically different procedures. Planning an installation requires the attention of competent executives. A punched card system is provocative and challenging.

The newness and unfamiliarity of punched card methods will pose problems. Within the cards are the means of controlling machines, but cards are prepared and machines are operated by people. Most office employees are not familiar with punched card methods despite decades of their successful use. This means that

present employees must be re-educated to a different way of doing their work. Forms, documents, and reports must be redesigned. Existing file systems must be renovated. Office space must be rearranged. Attitudes as well as methods must be adjusted. Indeed, all office functions must be reviewed and re-evaluated.

This sounds difficult, but it really is not. The punched card has proved that it is here to stay. All that is needed is desire, clear thinking and follow-through. My own experience suggests that installing punched cards is about 80 per cent planning and 20 per cent installing. It need not be the frightening experience that some have assumed it to be. It can be made a comparatively simple process if your entire program is properly planned.

There are two basic approaches to the problem of installing punched card methods. Some favor the gradual creeping process; an application or two at a time spread over a long period. This, to my way of thinking, is unsatisfactory. The result will inevitably be a disjointed series of applications rather than a smooth, free flowing set of procedures. The new system will be awkward to administer and cannot attain maximum efficiency. Also, you may have to backtrack to change previously adopted procedures in light of a later application. That possibility should be avoided because it may be expensive.

I strongly favor the alternative method—development of the entire system as a coordinated plan, and then proceeding to make the changeover step by step as rapidly as possible. Organizations with existing punch card systems should be alert to extending their use to other fields to obtain increased efficiency. This is the better way and the one which my experience has shown to be the most satisfactory. It avoids patchwork or halfway measures. This approach not only inspires the confidence of personnel but also gives low-cost insurance of your results. You can visualize the complete accounting structure and view the results in reports and costs before committing yourself to the conversion.

There are three major problems to be considered in using this complete approach to the adoption of punched cards:

First: What are the technical matters to be planned?

Second: What is the program for conversion—the sequence of steps from the time of initial consideration to the time of changeover?

Third: Where do you find competent assistance in planning and installing the system?

Technical Preparation

Technical preparation for punched cards revolves around the following six basic requirements:

1. Design of the Tabulating Card

A well-designed card anticipates all possible requirements for data to be recorded and provides adequate machine control. The number of different card designs should be kept at a minimum by adopting designs that are adaptable to multiple use.

2. System of Coding

Nothing is more important than the coding of accounting data; by it the machines identify the data in the cards. It should be simple, flexible and have capacity for expansion in accounting volume without requiring revision of procedures. From my experience, poorly planned coding has been the major cause of inefficiencies in punched card systems.

3. Staff Education

This is a vital part of the "80 per cent Planning." In converting from a manual to a highly mechanized set of procedures, practically everything changes. Your staff will probably have had little or no experience with punched cards. To offset the normal reaction of fear of the unknown, classes should be held, and everything possible previewed before the changeover. Key members of the comptroller's and business staffs should be assigned subjects to study and explain to the classes. These key people should constitute a panel of experts who should have the answers to all questions. This should avoid the necessity for backtracking and shorten the period of adjustment after the conversion. If the number of employees is to be reduced, morale may be maintained if those no longer required in the accounting department can be placed in other departments of the college. Sometimes attrition from normal turnover will relieve this problem.

4. Multiple Use of Basic Data

Just as we seek to eliminate multiple transcription in a manual system, we must strive to avoid duplicate recording of basic data on punched cards. Here, the techniques of master cards, pre-punched detail cards, and mechanical reproduction of a previously verified file of cards may be used to advantage.

5. Internal Audit of Accounting Data before and after Key-Punching

When a punched card reaches a classifying, tabulating or summarizing process, we should be confident that it correctly reflects the entry as made. This requires two things: the accuracy of the document which is submitted for key-punching and the accuracy of the key-punching itself. The source document and its coding should be subjected to internal check somewhere in the system before it reaches a key-punch station. Key-punched cards should be processed through a verifier wherever possible. The punching should be checked by providing controls to give the tabulating section a source against which to prove the dollar amounts of daily work.

6. *Controls for Localizing Errors*

Use of daily proofs for each source of accounting data will minimize differences in monthly proofs. Lost cards can then be identified in a matter of minutes. The daily accumulation of controls also provides an opportunity to check ledger accounts when posted. Ledger accounts should be so set up that departmental statements prepared from tabulating cards may be checked directly to controlling ledger balances.

The well planned system should provide these and other controls for localizing any possible error with a minimum of time and effort.

Program for Conversion

The detail procedures for a conversion to punched cards will vary with the individual institution. However, from my personal experience with several such situations, the following sequence of steps in conversion has proved most satisfactory.

In making a decision to consider a punched card system, a feasibility study might be either a prelude or aftermath of the actual decision; although, in my opinion, such a study is almost certain to indicate that punched cards are not only feasible but also advisable.

Such a survey can be made quickly, by someone who is familiar with both punched cards and the problems peculiar to a college or university. The survey should consider the size and complexity of the individual problems as well as the equipment required to handle them. By converting equipment needs to dollars, a fairly accurate cost analysis may be prepared. A formal written report might be requested, although an oral report is cheaper and is all that is needed.

When the survey report convinces you to go ahead with punched cards you should organize a working, planning group. This group should consist of the college officer responsible for accounting and fiscal affairs, members of his staff who will be directly responsible for day-to-day operations and representatives of consultants or technical experts competent in the field.

The members of this group should be in complete agreement on the program to be followed and strive to develop a completely coordinated system of procedures and applications before even considering the steps that will be followed in conversion.

They should develop a broad outline of the overall plan within the framework of the college policy. Though some compromises may be made because of these considerations, the group should be completely satisfied on general policy before getting down to details.

Detail procedures should then be developed for all applications such as payrolls, accounts payable, student and endowment income, budgets and other applications which the survey indicated might be placed on punched cards. Each employee directly associated with an area affected should be consulted. The six basic requirements of technical preparation should be considered in detail. Accounting forms should be designed. Procedures should be flow-charted and covering instructions written. Plug board diagrams and machine controls should be developed. The definite program steps and timetable for the conversion are essential components of detail planning.

The educational program for those affected should be instituted. Classes should be held and solutions developed for expected problems. Employees should attend courses on key-punching and machine operation. Each should be given an understanding of his or her role in this effort toward improved procedures. You should strive to discuss and anticipate every problem that might be encountered.

Now you should be ready for the program of conversion. Make it as rapid as possible consistent with safety but take it in short steps, especially at the start.

There are two ways to approach a conversion to punch cards. One way is by taking one department at a time for all accounting functions, and the other way is by one accounting function at a time for all departments. I think the departmental approach is the hard way because with the first department converted you immediately have all the problems of the entire accounting system; payrolls, accounts payable and all the others. When the conversion steps are by accounting function, you have only one set of problems to deal with at a time—first accounts payable and when that is flowing smoothly, then payrolls, and so on.

With competent advice and full support of the college administration, every phase could be planned and installed within six months. It is best to start your new system with the beginning of the fiscal year. Since many colleges operate on a June 30 fiscal year, you could start your system study on January first and be ready in ample time for both your new year and your September registration load. Availability of machines should not be a problem. Your equipment requirements will have been determined and machines ordered in advance.

Where to Find Competent Assistance

Major sources of technical assistance in planning and converting to punched cards are manufacturers' sales representatives, people in your own organization, management consultants, and public accountants.

The machine salesman can analyze the prospective installation and help you determine its probable cost. Most of them are well trained in their company's equipment. They are usually competent technicians with a good grasp of the individual customer's problems. They have access to their company's subject matter and case history records. A salesman usually will not sell an installation unless he believes it will work. Nothing injures a salesman's position with his employer more than cancelled orders or returned machines. There is usually no charge for his services.

However, a wise prospective customer should seek elsewhere for advice. The old adage—"You get what you pay for"—applies here as anywhere else. Features of another manufacturer's machines might be better suited to your needs. The salesman will not tell you this. Since he services several accounts and depends upon promoting sales for his livelihood, he may not be available to devote necessary time to your installation. Most important, he is not an expert in university accounting. The machine company will readily admit this. The salesman may try to adapt standard industrial applications to your individual requirements. This will never do. You need someone who has been through this before and understands your particular problems.

You might have such a man within your organization, or you might want to hire one. However, you need a man who has not only a flair for detail and technical knowledge, but also experience in college business administration. He should have both administrative and technical ability. He should also have the humility to seek competent advice when his knowledge of a particular subject is incomplete.

For these very reasons, the services of management consultants or public accountants are probably preferable. Both groups are familiar with all makes of punched card equipment. You should select one that has also had experience with college accounting. Due to the demand for these services, the larger consulting and accounting firms have developed departments which are devoted to machine accounting systems work. They work in this field constantly. Many of the larger accounting firms are also the

auditors for several colleges and universities, and have a working knowledge of the problems involved. Likewise, management consulting firms have often been retained by colleges on accounting matters. Though their fees would add to the expense of your installation, they would save you money in the long run by proper planning. Colleges which have successfully used the services of consultants or accountants in installing punched cards could refer you to firms qualified in this field.

Now that I have added my contribution to the millions of words that have been written about punched cards from congressional hearings to comic books, let me conclude with some general remarks about your role in the field of punched card accounting.

As management in your business offices, you should guard against two major mistakes that are made frequently by those considering an installation of punched cards. The first occurs when management concentrates its attention on individual machines, rather than on the system; the second, when management delegates decisions on punched cards to a technician rather than dealing with them as management problems. Both mistakes are serious either when considering punched cards initially or when attempting to achieve full realization of their potential.

It is a simple matter to avoid the first mistake. You, as management, should direct the detail planning yourself. Begin with a study of your own organization rather than of many pieces of hardware. The whole concept of system design requires that a comprehensive view be taken of the needs of the entire organization. Unless this is done, the most careful planning will not provide the full benefits attainable from data processing equipment. Review and analyze your operations as an integrated system for the entire organization and then evaluate the equipment.

The cause of the second error is the assumption that you must have a technician to handle your program. The cure for this is to train personnel from your own organization, providing the direction yourself or with the aid of a competent systems and procedures adviser. Punched card equipment should not be installed without a thorough understanding of the business itself, its functions and needs. It is much easier to train someone in punched cards who knows how to run college business than it is to train someone who knows punched cards to run your business. I can assure you that running a college is far more complicated.

Your objective should be to design the best possible system to meet your specific needs, whether it relies on an electronic computer, punched cards, or entirely on pencils and erasers.

These concluding remarks focus upon three basic principles which apply to the installation of a punched card system.

First, a thorough system study of your own organization should be made.

Second, the right machines should be selected to deal with the problems defined in the system study.

Third, both of the first two principles should be administered by management and applied by a man who understands both your business and the basic principles of punched cards. There is no substitute for experience, planning and imagination in realizing the full potential of punched cards.

If you are not using a punched card system now, consider one. It may help you in many ways. If you are using punched cards for some applications, you should extend their use in every way possible. But most important, do it the right way. The importance of competent advice and careful planning cannot be overemphasized.

Insurance Company Audit Course

By J. Harris (*New York Office*)

A selected group of staff members of advanced grades from eight offices recently completed a new course dealing with accounting and auditing practices and procedures peculiar to the field of insurance. The course was organized by Mr. J. H. McMichael, a member of the faculty of the Wharton School of Finance and Commerce of the University of Pennsylvania, under the direction of Mr. Maher. It was conducted in the training rooms of the New York office at Two Broadway.

The 34 men attending the two-week session were of staff levels from senior to manager.

Unique accounting principles and requirements for reporting prescribed for life insurance companies and for fire and casualty insurance companies were presented by Mr. McMichael through a series of lectures and class problems. Audit techniques peculiar to such insurance company engagements were explained by Lybrand personnel in lectures delivered by Messrs. O. H. Cloud, Jr. (Philadelphia), J. F. Silton (Birmingham), M. E. Straley (New York), and S. M. White (Boston). Mr. A. P. Rua (New York) discussed the Federal income tax aspects involved.

A similar course will be held in 1960.

Insurance Company Audit Course—Professor J. H. McMichael is standing in the rear of the class.

Public Accounting in England and the United States

By Richard N. Bowes

Last summer I spent three months as a junior accountant at the New York office of L.R.B. & M. Most people I met there at first wrongly assumed that I was connected with the associated firm in England. In fact my visit was under a relatively new student exchange scheme—it was the first time a British student had been to the United States under this plan. The exchange plan is administered by L'Association Internationale des Etudiants en Sciences Economiques et Commerciales. In return for my being accepted as a trainee by L.R.B. & M., Columbia University had the opportunity of sending a student trainee from the Graduate School of Business to an organization in Britain.

During my stay I recall reading an article by an impressive sounding gentleman who claimed that there are virtually no important differences between the public accounting profession in the United States and that in England and Wales. From the humble "worm's-eye view" of a junior accountant, the differences seem to have greater importance. My remarks refer only to those who are qualified, or are studying to become qualified, as a Chartered Accountant in England and Wales or as a Certified Public Accountant in the United States.

Would-be Chartered Accountants have to enter into contracts of apprenticeship (Articles of Clerkship) with a partner in a firm of Chartered Accountants for a period of five years (three years for university graduates). Standard form Articles include the following undertakings by the partner ("principal"):

> . . . that to the best of his ability and power he will either personally or through his partner or partners or his senior assistants engage the Articled Clerk on such work and afford him such opportunities and experience as are necessary for the purpose of enabling the Articled Clerk to acquire the art and knowledge of a Chartered Accountant in practice as a public accountant.
>
> that his professional practice as public accountant is his main occupation and is suitable for the purpose of enabling him to perform the last mentioned covenant.
>
> that he will allow the Articled Clerk reasonable leave for attendance at lectures and students' society meetings and will afford him facilities for study or for obtaining theoretical instruction.

that he will allow the Articled Clerk a period of not less than one month for full-time study prior to each occasion on which the Articled Clerk presents himself for an examination held by the Institute.

English partners would appear from the foregoing to have onerous duties regarding the education of their junior accountants ("Articled Clerks"). Many do not fulfill their obligations but from what I have heard they take, in general, a more direct interest in the education of their juniors than do their United States counterparts whose relationship with their juniors is not that of principal and pupil but rather one of employer and employee. I am aware that larger firms in the United States have extensive training courses and lecture programs, but I feel that in the case of juniors, this cannot make up for frequent personal supervision.

The greater privileges (e.g. study leave) and personal supervision explain to some extent a difference in the salary arrangements in the two countries. With a few exceptions, starting salaries in England are not comparable with those obtainable in other jobs. Even today there are a few cases where the principal requires a "premium" repayable in part or in full to the Articled Clerk during the period of his Articles. The rest of the explanation of these low rates lies in an element of monopoly, similar to that governing apprentice rates in industry. In England as elsewhere the profession is growing and the many people who wish to be Chartered Accountants have to find partners willing to accept them as Articled Clerks. Except by express permission of the Institute of Chartered Accountants, partners may only have a maximum of four Articled Clerks at one time. The foregoing factors have a particularly depressing effect in smaller towns where the competition for the services of juniors and the possibilities of finding a place as an Articled Clerk are meager.

One effect of the rather low remuneration offered to juniors is that some adopt the attitude that as they do not get a fair day's pay, they are under no obligation to put in a fair day's work. They are at the job in order to fulfill the conditions prescribed for becoming a Chartered Accountant, so their study is more important than the job. It would be unusual for an Articled Clerk to be dismissed and I do not suppose many principals would refuse to give the necessary certificate of service at the end of the period of Articles. These adverse circumstances can, of course, be easily exaggerated but they lurk in the background as a latent weapon of moral justification when slacking, fiddling expenses, etc. Without

wishing to honor all U. S. junior accountants as angels, the few I met did seem keen to get on in their firm and their profession by conscientious work.

It was stated earlier that there was some shortage of possibilities for obtaining Articles and also that some juniors cared little for the job, being merely concerned with obtaining the qualification of Chartered Accountant. Both these points can be explained in part by the fact that many young men hoping to be Chartered Accountants do not intend to make the profession their career. Well over half the 30,000 or so Chartered Accountants in England and Wales are not in public practice. On the other hand, my colleagues at L.R.B. & M. seemed to want to stay in the profession unless some exceptional opportunity arose elsewhere.

Judging from the comments I heard, there seem to be some differences in "hiring and firing." In England I should say that it would be very rare for a Chartered Accountant to dismiss a member of his staff, whereas in the United States this is apparently not uncommon. I was also very surprised to hear that some firms lay off staff during the summer months and re-engage them again in the autumn.

The role of the university in the education of accountants is very different in the United States compared with that in England. In some states and with some firms a college education approaches a sine qua non, while in England a graduate accountant is still the exception rather than the rule. Further, the graduate seeking to qualify as an accountant is sometimes looked upon less favorably than a nongraduate—he does not have so long under Articles (and thus is of less use to a prospective principal), he may think he knows everything, he may expect too high a salary, etc.

Training to be a Chartered Accountant is a popular form of education for business and it does not have the same competition that training for professional public accounting has in most other well-developed countries. There are no English equivalents of the business colleges of university standard that exist in other European countries. In English universities there is a feeling that business is not really a bona fide academic subject. The contrast with the States is strong where there are many chairs of accounting and training for public accounting is usually only a complement to a college education.

Another part in the education of junior accountants in England is taken by local Chartered Accountants Student Societies of which

each Articled Clerk is automatically a member. These Societies arrange such events as lectures on the examination syllabus, more general talks and discussions and short residential courses. I did not hear of similar organizations in the States.

The varying forms of education cause, result from, or interact with (I do not dare to specify) varying attitudes towards study. In the United States it seems that when a student has majored in accounting, he reckons he has learned all the theory required and needs only to review his university work for the C.P.A. examination. For this reason, whatever his original intentions, I suspect that he tends to leave the necessary "brushing-up" till a few months before the C.P.A. examination and does not use unassigned time for this purpose. In England the typical Articled Clerk starts service while in the 16–19 age bracket (i.e., immediately after leaving school). Throughout the five years of his Articles, he will take a correspondence course with a company specializing in this business (in England one company predominates). Graduate juniors also take part in the last three years of this course. Crudely, the difference in theoretical education is college against correspondence course.

My main conclusion is that there are quite important differences between the profession in the United States and in England and Wales as regards the education, remuneration and outlook of junior accountants. I feel that England should hasten towards more theoretical education at university level but I also recognize that much would be lost by abandoning the system of Articles of Clerkship. Where the true principal-pupil relationship exists this is immensely preferable to the employer-employee relationship found in the United States. For this reason it may not be possible to make wages in England competitive with those obtainable in other jobs, since a principal's duties are more far-reaching than those of an employer. The outlook of junior accountants in the United States seems more healthily professional than those in England. There are too many men in England who are interested only in qualifying as a C.A. After qualifying they will seek a job in industry or, in some cases, will sink into a seat on the Board of Directors at father's right hand.

I have spent a year in the office of a small firm of Chartered Accountants, three years' study at Manchester University for the degree of Bachelor of Arts in Commerce (specializing in Accounting), three months at the New York office of L.R.B. & M. and

eight months back in England in the Manchester office of a large international firm of Chartered Accountants. My views on the American profession are mainly based on my stay with L.R.B. & M.; those on the English profession are based partly on personal experience and partly on conversation with other Articled Clerks and with Chartered Accountants.

I am deeply grateful to all those who made my visit to the States possible. It was a magnificent opportunity that I feel has given me a profitable experience. I wish more students could have the same chance so I should like to wish the National Committee of A.I.E.S.E.C. at the Graduate School of Business, Columbia University, every success in its work.

"Survey of Benefits Resulting from the Use of Electronic Data Processing Equipment"

This survey, recently published by the Firm's Management Services Research and Consulting Division, is a report of the EDP experience of eleven companies. Each company was visited in order to obtain, and appraise at first hand, benefits realized from the installation of EDP equipment. These benefits have been most evident in:

Personnel displacement
Improved management control
Reduced expense due to faster billing
Improvement of competitive position

Some specific benefits brought out by this survey include:

1. Two companies with high volume applications have saved over one million dollars each over the life of their systems.

2. A smaller company whose activities were highly decentralized is saving in excess of $250,000 annually, through centralization.

3. One company, with a history of 10–15 per cent annual increase in paperwork, has found the computer capable of handling the growing workload with no increase in the EDP equipment or staff, plus additional time available for new applications.

4. A manufacturer of automotive parts, a highly competitive industry, has reduced investment in inventory by 50 per cent.

5. A large military equipment systems supplier has reduced inventory costs by 75 per cent, saving $144,000 per year.

6. One national manufacturer of producer's durable goods has reduced the production control cycle from 5½ weeks to 48 hours.

Conclusions:

We believe this study fortifies certain conclusions now coming into general acceptance concerning the benefits of using EDP. These may be enumerated as follows:

Clerical savings through displacement of personnel are elusive and even when achieved are difficult to prove.

The best opportunity for clerical cost reduction is in high volume processing areas and where certain characteristics of a business previously dictated extensive decentralization of routine clerical work.

Control type applications, and particularly inventory control, offer outstanding rewards. This may be due in part to a failure to investigate the opportunities for better control available through the use of less dramatic but more cumbersome methods. We think there is evidence that EDP's ability to review for inactivity as well as activity is a key to progress in this area. Integrated production control applications have excellent possibilities, but they are as yet largely undeveloped.

Exception reporting provides a better tool for screening reports. However, management must be trained to use these reports for more effective decision-making.

Through the use of a computer, budgetary limits which prevented older systems from providing timely reports are eliminated.

Copies of this report may be obtained from any of the L.R.B. & M. offices or from the Management Services Research and Consulting Division, 2 Broadway, New York.

Automatic Programming Course

A one and one-half day seminar on automatic programming philosophies and techniques was held August 3–4 for members of the Management Services Research and Consulting Division. The sessions, conducted by Richard G. Canning covered the following areas of interest:

History and evolution of a common language for computers

Status of automatic coding systems for the major computers

Case histories illustrating the applicability and experiences of several EDP installations successfully utilizing automatic programming techniques

Theory of the universal language techniques employed by the Air Force in its AIMACO System

An extension of the Remington Rand Flow-Matic System. This permits computer programs to be written in English language sentences

Analysis of the advantages and disadvantages of automatic programming techniques

Automatic programming as it relates to the feasibility, training and installation phases of an electronic data processing system.

A Beach picture taken at the New York Outing—Seated are Alvin R. Jennings, Partner and Chairman of the Executive Committee, Harry O. Leete, retired Supervisor and Alan K. Bloom, Staff Accountant.

Production Control Seminar

A production control seminar was held in the New York Office for members of the Management Services Research and Consulting Division on August 5 and 6 under the direction of Dr. Michael Shegda, Associate Director of the Division.

Case histories and discussion areas were based on the following topics:

I Production Planning

A. Maintaining status of orders
B. Coordination with product engineering
C. Determination of parts requirements and release of parts orders
D. Make or buy decision
E. Maintenance of inventory data
F. Determining method of producing each part (routing)
G. Scheduling—final assemblies and detail parts
H. Change control
I. Types of production planning
    1. Planning to order
    2. Planning for stock
    3. Planning for semi-finished stock and finishing to order

II Production Control

A. Machine loading and machine backlog
B. Dispatching (machine scheduling)
C. Labor control
D. Coordination with inspection
E. Expediting
F. Stores operation
G. Movement of material

III Basic Production Methods

A. Intermittent processing
B. Continuous processing

Firm Conference for Tax Specialists

By Norman E. Auerbach

The Firm's Tax Conference was held September 21–23, 1959. Approximately 70 tax specialists from all the domestic offices were present. The subjects discussed in the comprehensive presentations were as follows:

ADMINISTRATIVE ASPECTS OF OUR TAX PRACTICE
(MR. BARDES, *Chairman*)

IMPACT OF SUPREME COURT DECISION ON
TAXATION OF INTERSTATE COMMERCE
(MR. STUETZER, *Chairman*)

Seminars were conducted on various tax specialties. The subjects discussed and the chairmen of the panels were as follows:

Chairman	
MR. GELBERT	1. Estate Planning. Special features of plans prepared by us considered to be of broad interest. Specific problems of broad interest (not involving preparation of complete estate plan) encountered in our practice or suggested by court decisions, rulings, etc.
MR. WELSCH	2. Natural resources, including depletion, exploration and other industry problems.
MR. STUETZER	3. New developments in depreciation, including first-year additional depreciation, salvage and loss on retirements.
MR. PEARSON	4. Consolidated Return. Consideration of certain specialized problems, including elimination of intercompany profit. Special situations where Western Hemisphere trade corporation is involved, etc.
MR. PHELPS	5. Foreign taxes, including planning for minimum combined U. S. and foreign taxes. Foreign tax haven companies.
MR. AUERBACH	6. New developments in inventory methods, including dollar value LIFO and direct costing.
MR. HYDE	7. Disallowance of expense reimbursements to, and unreimbursed expenses claimed by, executives or owners of closely-held businesses. Also, tax savings ideas for individuals.

MR. GOODNER	8.	Fringe benefits (not taxable to employee—deductible by employer). New developments. New types of benefits.
MR. COLLERAN	9.	Qualified Pension, Profit-Sharing and Stock Bonus Plans. New developments.
MR. CROMWELL	10.	New developments in state and local taxes, including application of sales and use taxes, allocation formula, separate accounting and combined reports.
MR. GRAICHEN	11.	Corporate reorganizations, liquidations, dividends, etc. New developments.
MR. FARRAND	12.	Pseudo Corporations. Consideration of special problems and impact of regulations on the use of this form.
MR. REYBURN	13.	Apportionment of purchase price on acquisitions of going businesses. Valuation of good will.
MR. RICHARDSON	14.	Return Preparation, Processing and Reproduction, and Review.
MR. GALLAGHER	15.	Income Taxation of Estate and Trusts. New developments, tax-saving opportunities, etc.
MR. MIRANDY	16.	Deferred compensation, including restricted and unrestricted stock options and stock purchase plans generally. New developments. New types of plans.

In addition to the above items, some time was devoted each day to a discussion of specialized tax problems of broad interest.

Firm Conference for Management Services Specialists

By James E. Meredith, Jr.

The Firm meeting of Management Services specialists is scheduled to be held in the New York Office on November 9 and 10. Approximately seventy-five staff members and partners are expected.

The program has been developed by a technical committee composed of W. G. Casey, Chairman (Boston), T. R. Pleim and J. J. O'Donnell, Jr. (New York) and L. A. Martorano (Philadelphia). Mr. Meredith, Chairman of the Management Services Committee and Dr. Frank P. Smith, Educational Director, also participated. The general theme is to be "Management Control Techniques" with two sessions on November 9, on Direct Costing and Inventory Management and Production Control, and one session on November 10 on Reports to Management.

The plan for each of the three sessions in management control techniques is for the Chairman of the discussion leaders to make a short presentation, then the participants will be divided into three groups of approximately twenty-five each for a discussion of the technical subject. Three teams of discussion leaders have been selected as follows:

W. G. Casey, *Chairman* (Boston)
M. B. T. Davies (M.S.R. & C. Division)
T. R. Pleim (New York)

L. A. Martorano, *Chairman* (Philadelphia)
C. P. Oliphant (St. Louis)
Michael Shegda (M.S.R. & C. Division)

J. J. O'Donnell, Jr., *Chairman* (New York)
D. V. Brondyke (Detroit)
R. L. Stark (Cleveland)

A final planning meeting which will include all of the discussion leaders will be held in New York on October 9.

There will be a third technical session on November 9, on the subject of Operations Research under the direction of Mr. Heiser and Dr. Tibor Fabian.

Mr. Meredith will serve as Chairman of the two afternoon sessions on November 10. The first session will be devoted to a

series of topics under the general theme of "New Horizons." The specific topics will be drawn from a cross-section of recent developments and new techniques such as return on capital expenditures, pricing guides based on return on investment, uses of visual aids, organizational studies and work measurement.

The final session will be a review by Mr. Meredith of Management Services activities for the past year and a forecast for 1960.

Administrative Sessions

In addition to the technical sessions described above, a series of meetings of partners and administrative personnel will be held November 9–10. These sessions will be devoted to the administration of Management Services Departments, estimated Management Services potentials in terms of engagements, man-power requirements and possible sources, training programs and new areas of Management Services activities.

EDP Review

Following the Firm meeting for Management Services specialists, a group of selected staff men with Electronic Data Processing background will participate in a three-day review or refresher course, November 11–13. This course will be presented by members of the Management Services Research and Consulting Division. The purpose of the meeting is to present to EDP specialists the latest developments in equipment adaptations of installations to business requirements and new techniques and procedures.

Robert H. Montgomery*

Robert Heister Montgomery, accountant, lawyer, author, teacher, bibliophile, horticulturist and leader of the accounting profession from the earliest days of the twentieth century, exemplified the courage, vision and intellectual honesty found in those stalwarts who have carried the profession to the position of eminence and respect in which it is held today. This article is not only a recital of his accomplishments in the field of accounting; it is also an attempt to reveal his characteristics, his foresight, imagination, and above all, his insistence upon integrity. He had a strong dislike, indeed a deep-rooted antipathy toward anything that savored of sham or pretense. He minced no words either in conversation or in his writings where he felt intellectual honesty called for criticism. For example, he said: "Success (taking the word in its usual meaning) is often achieved through bunk. Success in a finer sense is often achieved by merit alone."

He was born in Mahanoy City, Pennsylvania, on September 21, 1872, the son of a Methodist minister. His formal education was limited, as the family had to move from one place to another every two or three years, usually in March, because of the custom of reassignment prevailing in the Methodist Church. The environment of a prelate's children, however, with its association of sermons, speeches, and articles to be read and consulted, served as a stimulus for knowledge. This background, coupled with his native ability and supplemented by intensive study at night, was a contributing factor toward the later successes of Robert H. Montgomery.

Financial considerations and the illness of his father forced him to take his first job at the age of fourteen. On February 4, 1889, after serving a year in several jobs, he became an office boy for John Heins, who at that time was President of the American Association of Public Accountants.

In the Heins organization were William M. Lybrand, T. Edward Ross and Adam A. Ross, who later became his partners. While working with them as an assistant, he was guided through the intricacies of accounting and auditing. Here began a friend-

* This article was prepared by the Committee on History, Leo L. Tauritz, Chairman, of the New York State Society of C.P.A.'s. It is reprinted by permission from *The New York Certified Public Accountant*, vol. xxix, No. 2, pp. 114–118.

ship which was terminated only by death. From 1889 to 1898, when the firm of Lybrand, Ross Bros. & Montgomery was founded, Robert Montgomery's public accounting experience covered every phase of commercial, financial, professional, philanthropic, and public service, and all other branches of human endeavor in which accounts are kept.

In the summer of 1898 he enlisted as a private in Battery A, Philadelphia Light Artillery, Pennsylvania Volunteers, U. S. A., and saw service in Puerto Rico. On June 15, 1899, he was awarded his Pennsylvania certificate as a Certified Public Accountant; in later years he was granted certificates to practice in New York, Missouri, District of Columbia, Michigan, Ohio, Illinois, Kentucky, and California. He was admitted to the Philadelphia Bar in 1900, and to the New York Bar in 1904.

Early in his career, he felt that the major benefit he derived from attempts to teach others was the pressure on himself to gain enough knowledge to keep on teaching; in other words, to educate himself. His teaching activities began in his firm's Philadelphia office in 1902 and he taught one of the evening classes there until 1904. He continued his teachings at the University of Pennsylvania, where evening classes were started in 1904 under the sponsorship of the Pennsylvania Institute of Certified Public Accountants. In the winter of 1905–06 he lectured not only before the Evening School of Accounts and Finance of the University of Pennsylvania, but at New York University as well. Evening classes were not established at Columbia University until 1910. Robert Montgomery taught the first class there and obtained instructors to take over the additional classes.

One of the difficulties he encountered in his teaching activities was that most of his students had never seen a set of accounting records. Accordingly, he acquired a dozen or more sets of books of account, chiefly of bankrupt concerns, which he used and which he called an Accounting Laboratory. In a pamphlet which he published in 1914, "An Accounting Laboratory—The Connecting Link between Theory and Practice," he pointed out the possible advantages from what he was starting. Typical of the author is one of the phrases in the pamphlet. . . . "It serves to emphasize what I frequently have told the students of my accounting classes, viz., 'Practical accounting cannot be taught, it must be learned'."

In 1915 he was appointed Assistant Professor of Economics at Columbia University and in due course, as the number of classes

increased, was in 1919 made a full Professor of Accounting of the School of Business and for a time was a member of the Administrative Board of the School.

That Robert Montgomery practiced what he preached to his clients is illustrated by his action at the opening of the firm's New York office in September, 1902, at 25 Broad Street. While this office consisted of only one room, he sublet part to two lawyers who had just started a practice. He stated that it was necessary to lessen the first year's overhead as he did not intend that expenses should exceed gross income.

He was one of the sponsors of the first International Congress of Accountants held in St. Louis in 1904, where he delivered his paper, "The Importance of Uniform Practice in Determining the Profits of Public Service Corporations Where Municipalities Have the Power to Regulate Rates." This talk attracted most favorable attention. In that same year, he received permission from Professor Lawrence R. Dicksee to publish the American edition of *Auditing: A Practical Manual for Auditors.* As he could not find a publisher willing to take the risk, he had it printed at his own expense in 1905. A revised edition was published in 1909.

The year 1905 witnessed several events indicative of his efforts on behalf of the profession. He was largely instrumental in organizing a corporation and obtaining funds for publishing *The Journal of Accountancy.* He wrote for the first number, issued in November, 1905, an article entitled "Professional Standards—A Plea for Co-operation among Accountants." This article, which served as a forerunner of present-day rules of professional conduct, is as current today as it was over fifty years ago and exemplifies his great vision. He also enlisted the aid of other outstanding accountants as contributors to the first issue. In 1905 he became a member of the American Association of Public Accountants, when the Federation of Societies of Public Accountants, of which he had been Secretary, merged with the Association.

In the years 1907 to 1911, Robert Montgomery was especially active at the annual meetings of the American Association of Public Accountants, acting as toastmaster, working on by-laws, rules of professional ethics and the like. In 1912 he was elected President of the American Association of Public Accountants, predecessor organization of the American Institute of Accountants, and was re-elected in 1913.

By 1912, experience had demonstrated that the American revision of *Dicksee's Auditing* had in effect outlived its usefulness, primarily because many of its features were not adaptable to American practice. Accordingly, Montgomery determined to bring out his own book, which was better suited to the requirements of students of accounting and of the profession in this country. Seven other editions have been published since 1912, the latest in 1957 under the title "Montgomery's Auditing." As authoritative reference works these books are found in schools and offices of accountants, not only throughout this country but in other countries as well, translations having been made into many foreign languages.

Commencing with the year 1917, editions of Montgomery's *Income Tax Procedure* (presently entitled *Montgomery's Federal Taxes*) have been published almost yearly. These books have been quoted time and again by the several courts in many instances in support of their own opinions, primarily because of their clear interpretation of the various Revenue Acts.

In 1917, as Chairman of the Committee on Federal Legislation of the American Institute of Accountants, Montgomery, together with George O. May and Harvey S. Chase, at the request of the Federal Trade Commission, prepared a program for audit procedure. This was approved by the Commission and transmitted to the Federal Reserve Board, was published in the Federal Reserve *Bulletin*, and reprinted in pamphlet form for general distribution under the title, "Approved Methods for the Preparation of Balance Sheet Statements."

Commissioned a Lieutenant Colonel in March, 1918, he became a member of the War Department Board of Appraisers and Price Fixing Committee, War Industries Board. In September, 1918, he was appointed Chief of the Price Fixing Section of the Purchase, Storage and Traffic Division of the General Staff and served until Jauuary, 1919.

Shortly after his inauguration in 1921, President Harding appointed Albert D. Lasker to the chairmanship of the United States Shipping Board, the most controversial agency left from World War I. Colonel Montgomery became Assistant to the Chairman in charge of finance and accounts. The Board had no inventory of the property it owned, and the Comptroller General had disapproved vouchers amounting to $700,000,000. In the words of Chairman Lasker, it was the "worst accounting mess in history."

No one inclined to weigh the risks to professional reputation would have dared to face this situation. Here, again, was an evidence of courage, for under Colonel Montgomery's direction, procedures were established whereby a physical inventory was taken of the property owned by the Board on the Atlantic, Pacific and Gulf seaboards, the planning for which was so thorough that it was quickly completed. In addition, a financial statement of the realizable assets and liabilities as of June 30, 1921 was prepared which necessitated gathering financial information from widely scattered points. New accounting methods and procedures were established which, for the first time, made possible the preparation of monthly statements for the vast organization with complete comparative analyses of operating and administrative costs. Robert Montgomery and his staff devoted approximately five months of intensive efforts to this work. Despite the magnitude and complexities of the undertaking, the engagement was brought to a successful conclusion.

Elected as President of the New York State Society of Certified Public Accountants in 1922 and re-elected in 1923, he started a campaign to bring together the American Institute of Accountants and the American Society of Certified Public Accountants. The latter organization was formed in December, 1921, because of divergent viewpoints of the separate organizations. Progress toward merging the two organizations was slow and it was not until 1936, the year following his election as President of the Institute, "upon a clearcut platform of merger," that agreement for the merger was reached.

As a result of efforts on the part of the American Legion, Congress in June, 1930, created a Commission to study and consider amending the Constitution of the United States to provide that private property might be taken by Congress for public use during war, to devise methods to equalize the burdens and remove the profits of war, and to make a study of policies to be pursued in the event of war. Through the suggestion of Bernard M. Baruch and Hugh Johnson, and at the urgent request of Secretary of War Patrick J. Hurley, Colonel Montgomery was elected Executive Secretary of this Commission. Every known phase of war and preparation therefor was considered and explored. He worked closely with Secretary Hurley, Acting Chief of Staff Moseley and Major Dwight D. Eisenhower. His relations with Messrs. Moseley and Eisenhower were among the most pleasant memories of his

life and his contacts with them were daily, sometimes hourly, over a long period. Because of the change in administration in 1933, little attention was given at that time to the Commission's Report to the President of the United States. It constitutes, however, an important and lasting contribution to war preparation planning.

Colonel Montgomery always contended that any decent hobby would add years to one's life. He felt that a hobby enlisted both the intellect and the emotions and was progressive in its nature. For many years before World War I, he circularized many sources all over the world and gathered a really fine collection of old publications on bookkeeping, among which was the first book containing a description of double entry bookkeeping, *Summa de Arithmetica*, by Lucas Pacioli, published in Venice in 1494. In 1926, he gave the entire collection to Columbia University where it would be available to everyone interested. While this hobby was closely associated with his profession, in later years he expanded his ideas to the end that if they added to knowledge, created beauty, or in some way rendered social service, such hobbies were more worthwhile. So he selected horticulture, which became his supreme interest during the last twenty-five years of his life. He had always loved trees. The forests of France had a particular attraction for him. After a long search, in 1920 he acquired an estate in Cos Cob, Connecticut. In 1945, he donated a part of the fine conifer collection located on this estate to the New York Botanical Garden; and in 1947 approximately 200 specimens of pine, spruce, hemlocks, yew and cedar trees were transplanted to a two-acre plot at the Botanical Garden. His estate was willed to the town of Greenwich, Connecticut, for use as a public park and as a preserve for the fine hemlock forest and other rare conifers that grow there.

His interest in horticulture was not confined solely to Connecticut. In March, 1938, the Fairchild Tropical Garden at Coconut Grove, Florida, was dedicated. It was made possible by a contribution from Colonel Montgomery which included 83 acres of land. Through the generosity of his partners, a gift was made to the Garden which enabled it to provide a library and museum building. Many thousands of tourists and others visit this garden each year and enjoy the tropical plantings.

Dickinson College, Carlisle, Pennsylvania, conferred an honorary LL.D. degree upon him in 1941. The bestowal of this degree was especially fitting in view of the fact that his father was

graduated from Dickinson College in 1848. A signal honor was bestowed upon him in 1950, when Ohio State University recognized his outstanding contributions to the accounting profession by naming him one of the first of three men to be elected to its Accounting Hall of Fame.

Funeral services were held in the garden of his home in Coconut Grove, Florida, on May 6, 1953. Those present were deeply impressed by the beauty of the scene and by the sermon of the Pastor of Plymouth Congregational Church, who conducted the services. Expressing the spirit of his living, the pastor said, "Truly it can be said of him as it was said of the historian, Gibbon, 'He died climbing'."

Colonel Montgomery's passing created a vacancy in the accounting profession which will be difficult to fill. His character and accomplishments will not be forgotten by those who knew him. In the words of the Bard of Avon, "He was a man, take him all in all; I shall not look upon his like again."

Recent Library Acquisitions

By Dorothy Kasman (*New York Office*)

American Management Association. Ends and means of modern management; guides for top management planning and action. Management report No. 30. 1959.

American Management Association. The dynamics of management; executive thought and action in a changing world. Management report No. 14. 1958.

American Management Association. Financing foreign operations; sources of capital for U. S. trade and investments. Management report No. 23. 1958.

American Management Association. Problems and practices in industrial relations. Management report No. 16. 1958.

Arrow, Kenneth J.; Hurwicz, Leonid; Uzawa, Hirofumi. Studies in linear and non-linear programming. Stanford University Press. 1958.

Bierman, Harold, Jr. Managerial accounting; an introduction. Macmillan. 1959.

Diebold, John. Automation: its impact on business and labor. Pamphlet No. 106, National Planning Association. May 1959.

Ideas for management; papers and case histories presented at the 11th International Systems Meeting. The Systems and Procedures Association. 1959.

Investment companies, 1959 ed. Arthur Wiesenberger & Co.

Kenney, Roger. Fundamentals of fire and casualty insurance strength, 3rd ed. The Kenney Insurance Studies. 1957.

Lazarro, Victor, ed. Systems and procedures; a handbook for business and industry. Prentice-Hall. 1959.

Life Insurance fact book, 1959. Institute of Life Insurance.

McCormick, Edward Mack. Digital computer primer. McGraw-Hill. 1959.

McCracken, Daniel D.; Weiss, Harold; and Lee, Tasi-Hwu. Programming business computers. Wiley. 1959.

McKinney's 1959 session laws of New York; 182nd session laws of the regular session, Chapters 1–880. Edward Thompson. 1959.

McNair, Malcolm P. Operating results of department and specialty stores in 1958. Division of Research, Graduate School of Business Administration, Harvard University. 1959.

Markowitz, Harry M. Portfolio selection; efficient diversification of investments. Wiley. 1959.

Marling, Elizabeth, ed. Management for the smaller company. American Management Association. 1959.

Metal statistics 1959, 52nd annual edition. American Metal Market.

Operational research in practice; report of a NATO conference. Pergamon Press. 1958.

Peel, Fred W., Jr. Consolidated tax returns; a treatise on the law of consolidated federal income tax returns. Callaghan. 1959.

Ross, Stanford G.; and Christensen, John B. Tax incentives for industry in Mexico. International Program in Taxation, Harvard Law School. 1959.

Ruml, Beardsley; and Morrison, Donald H. Memo to a college trustee; a report on financial and structural problems of the liberal college. McGraw-Hill. 1959.

Saaty, Thomas L. Mathematical methods of operations research. McGraw-Hill. 1959.

Sasieni, Maurice; Yaspan, Arthur; and Friedman, Lawrence. Operations research—methods and problems. Wiley. 1959.

Shubik, Martin. Strategy and market structure; competition oligopoly, and the theory of games. Wiley. 1959.

Sord, Bernard H.; and Welsch, Glenn A. Business budgeting; a survey of management planning and control practices. Controllership Foundation. 1958.

Statistics of income . . . 1956–7; corporation income tax returns with accounting periods ended July 1956–June 1957. Publication No. 16 (3–59), U. S. Treasury Department, U. S. Government Printing Office. 1959.

Tead, Ordway. Administration: its purpose and performance. Harper. 1959.

United States Code, 1958 edition—titles 1–9, 10–11, 12–15. U. S. Government Printing Office. 1959.

Awards and Prizes

The Prize-Winning Articles for 1958

The Firm is pleased to announce the awards for the best manuscripts by staff members published during 1958 in *The Journal of Accountancy*, the *L.R.B. & M. Journal* and other technical magazines and journals.

The Journal of Accountancy:

First Prize—$1,000. Awarded to Raymond E. Graichen for his article entitled "Pension, Profit-Sharing and Bonus Plans."

The L.R.B. & M. Journal:

First Prize—$1,000. Awarded to M. B. T. Davies for his article entitled "The Cost Reduction Program."

Second Prize—$500. Awarded to James B. Fish, Jr. for his article entitled "Pseudo-Corporations."

Other Publications:

First Prize—$1,000. Awarded to William T. Barnes for his article entitled "Current IRS Policies Make Careful Planning by Foundations Imperative," which appeared in the *Journal of Taxation*.

Second Prize—$500. Awarded to Herbert H. Schueller for his article entitled "Collapsible Corporations," which appeared in *The New York C.P.A.*

The Lybrand Awards for Cost Accounting Literature

The President of the National Association of Accountants appoints each year a committee to select the winners of the gold and silver medals and 20 certificates of merit in the Lybrand Awards manuscript competition. The Committee for 1958–1959 was composed of Frank Klein, Chairman, Vice President of Worthington Corporation, G. D. Ellis, Vice President of the Combustion Engineering Co. before his retirement in 1958 and Paul M. Herring, Vice President and Controller of Kutztown Foundry & Machine Corp.

The gold medal was awarded to James D. Willson, Vice President for Finance of the Norris-Thermador Corp. for his paper "The Accountant's Contribution to Industrial Relations." The silver medal was awarded to Robert J. Donachie, Assistant Controller of Clark Bros. Co. for his paper "Converting to and Using Direct Costing."

The Lybrand Awards for Cost Accounting Literature were established in 1949 by the partners of L.R.B. & M. in honor of Mr. Lybrand's many years of service in furthering the aims of the National Association of Accountants.

The Montgomery Prize

The winner of the Montgomery Prize for 1958–1959 was Mr. Donald E. Aronson. The prize was established in 1916 by Colonel Montgomery to be awarded annually to the member of the graduating class of the School of Business at Columbia University who specialized in accounting and who was considered by the faculty of the School to be the most proficient in all courses.

The Adam Averell Ross Memorial Prize

In 1939 Mr. T. Edward Ross, in memory of his brother, Adam Averell Ross, established annual prizes for outstanding students of the Wharton School of Finance and Commerce, University of Pennsylvania.

The prize for 1958–1959 for the graduating senior who showed the most promise in the field of accounting was awarded to Mr. Robert Leon Israeloff.

The prize to the student in the Graduate Division majoring in accounting who presented the best thesis for the Master of Business Administration Degree was awarded to Mr. George Duncan.

Speaking Engagements

Date	Speaker	Organization	Topic
Apr.			
3	M. E. Richardson New York	Tax Executives Institute, Inc. Tri-Chapter Meeting of Cincinnati, Indianapolis and Louisville Chapters, Louisville	Congressional Thinking Regarding Required Tax Legislation
3	J. Paul Finnegan Boston	Harvard Business School, N.A.A., Boston Chapter	Tax Considerations—Acquisition of Capital Assets
6	P. L. Defliese New York	Texas Society of C.P.A.'s and the Committee on Auditing Procedures of A.I.C.P.A., Dallas	Preparation of special reports booklet, illustrating accountants' opinions pursuant to statement on auditing procedure No. 28
7	Clyde B. Absher Chicago	Moderator at town meeting, Downers Grove Township, DuPage County, Ill.	
7	Harry C. Zug Philadelphia	Pennsylvania Inst. of C.P.A.'s, Central Chapter, Altoona	Professional Activities
8	William R. Hindman Louisville	N.A.A., Louisville Chapter, and National Machine Accountants, Louisville	Panel Discussion—"The Accountant and Office Automation"
13	Tibor Fabian M.S.R. & C.D.	University of Pennsylvania	Business Systems at the Maintenance Level
14	Felix Kaufman M.S.R. & C.D.	Life Office Management Assn., Chicago	E.D.P. Equipment
14	Frank P. Smith New York	Sixth Annual Institute on Accounting, University of Colorado	The Accountant and His Managerial Future
14	Roy H. Webster Seattle	National Machine Accountants Association and National Office Management Association, Portland	Auditing Machine Accounting Systems
15	Felix Kaufman M.S.R. & C.D.	National Retail Merchants Assn., New York	Facility Studies
16	Floyd P. Karg San Francisco	N.A.A., Oakland-East Bay Chapter, Berkeley	Scope and Services of Accounting
20	D. B. Paquin Chicago	National Machine Accountants Assn., Toronto Chapter	Management and N.M.A.A.
21	Herman C. Heiser M.S.R. & C.D.	N.A.A. Louisville Chapter	Electronic Data Processing for Medium-Sized Companies
21	Felix Kaufman M.S.R. & C.D.	Canning, Sisson and Associates, Engineers, New York	Successfully Installing an E.D.P. System
21	W. R. Staub New York	Controllers Institute (Eastern Regional) Meeting, Richmond	Current Trends in Depreciation Accounting
22	Maurice B. T. Davies Los Angeles	13th Annual Conference of Accountants, University of Tulsa	Controllership Opportunities in Profit Planning
23	J. Walker Voris Los Angeles	Systems and Procedures Association of America, Los Angeles Chapter	Panel Discussion—Systems, Man and Operations Research
23	D. B. Paquin Chicago	National Machine Accountants Assn., Milwaukee Chapter	Professionalization of the Machine Accountant
24	J. Warren Rowland Rockford	Illinois Society of C.P.A.'s (Bank Auditing Seminar and Workshop), Springfield	The Role of the Supervisory Examiner in the Regulation of Banking

Date	*Speaker*	*Organization*	*Topic*
Apr.			
25	Louis S. Sorbo Louisville	Kentucky Society of C.P.A.'s, Kenlake	Panel Discussion—Accounting and Tax Problems for the Oil Producing Industry
27	Frank P. Smith New York	Controllers Institute, Newark Control	The Controller's Role in Management
27	James E. Meredith, Jr. William G. Casey Philadelphia	A.M.A. New York	Revitalizing the Cost Accounting System to Meet the Needs of Management
28	Herman C. Heiser Felix Kaufman Tibor Fabian M.S.R. & C.D.	N.A.A., Rockford Chapter	E.D.P. for Top Executives
28	J. Wesley Huss San Francisco	The California Society of C.P.A.'s, San Francisco Chapter	Economics of Accounting Practice
28	Fred C. Dennis Cincinnati	American Society of Women Accountants, Cleveland Chapter	The Road Ahead
29	Tibor Fabian M.S.R. & C.D.	N.A.A., New York Chapter	Operations Research and the Accountant
29	Robert S. Warner Los Angeles	Long Beach State College	The Case for an Accounting Career
30	John C. Padgett Cleveland	N.A.A., Cleveland Chapter	Panel Discussion—Reports to Management
30	John L. Moneta Price G. Righter Philadelphia	Ostheimer and Co. Inc. Phila.	Panel Discussion—Accounting for Cost of Pension Plans
30	George A. Hewitt Philadelphia	Penna. Institute of C.P.A.'s, York Chapter	Professional Responsibilities of C.P.A.'s
May			
1	Maurice B. T. Davies Los Angeles	California Association of Public Schools, Southern California Section, Los Angeles	Systems Analysis as It Relates to Public School Business Administration
4	D. B. Paquin Chicago	State University of Iowa Marketing Club	Operation and Services of the Management Services Dept.
5	Herman Stuetzer, Jr. Boston	Harvard Law School	Seminar on Expense Deductions
7	Stanley C. Simon Dallas	Sixth Annual Dallas Estate Day, American Society of Chartered Life Underwriters, Dallas Chapter	Minimum Deposit and Bank Financed Life Insurance
7	W. R. Staub New York	Rutgers Graduate School of Accountants	Accounting for Pension Costs
7	R. K. Batzer New York	Comptrollers Institute, N. Y.	Relationship with and Problems of C.P.A.'s
12	James J. Mahon, Jr. Philadelphia	Conference on Jobs and Business Climate, Harrisburg	Pennsylvania's Industry Tax Climate
12	Felix Kaufman M.S.R. & C.D.	N.A.A. Long Island Chapter	Developments in E.D.P.
14	Maurice B. T. Davies Los Angeles	Systems & Procedures Association, San Fernando Valley	Panel participant—Appraising and Evaluating the Organization
14	Harry C. Zug Philadelphia	Pennsylvania Institute of C.P.A.'s, Erie Chapter	Professional Activities
15	Harry C. Zug Philadelphia	Pennsylvania Institute of C.P.A.'s, Northwestern Chapter	Professional Activities

Date	Speaker	Organization	Topic
May			
15	Leo V. Tinkham Chicago	32nd Annual Conference of Credit Executives, Chicago	Reading the fine print in financial statements
15	Herman C. Heiser Michael Shegda M.S.R. & C.D.	University of Alabama, Fourth Annual E.D.P. Conference	The Evolving Character of E.D.P. Equipment
16	J. Wesley Huss San Francisco	The California Society of C.P.A.'s, San Jose Chapter and San Jose State College Accounting Conference	Such Tests as We Consider Necessary in the Circumstances
19	Raymond E. Graichen Philadelphia	Pennsylvania State University, 13th Annual Tax Institute Forum	Panel Discussion—Spin-off, Split-off, Split-up of Corporate Businesses
20	Clyde B. Absher Chicago	The Institute of Internal Auditors, Chicago Chapter	Panel Discussion—Control of Crime Losses through Prevention and Detection
20	Frank P. Smith New York	New York State Society of C.P.A.'s, Syracuse Chapter	Training Programs for Public Accounting
20	T. W. McKibben Tulsa	Oklahoma Society of C.P.A.'s, Tulsa Chapter	Increasing Profits through Use of Computers
21	Katherine E. Pfeifer Cleveland	American Society of Women Accountants, Pittsburgh Chapter	Then and Now
21	Tibor Fabian M.S.R. & C.D.	A.M.A. New York, Orientation Seminar	The Proper Balance in Maintenance Replacement
21	Harry C. Zug Philadelphia	Pennsylvania Institute of C.P.A.'s, Reading Chapter, and Loan Officers of Reading Banks	Discussion of Professional Ethics
21	Herman C. Heiser M.S.R. & C.D.	Society of Plastics Industry, Inc., Regional Management Meeting, Princeton	Profit Planning
22	David A. Biasotti San Francisco	The Pacific Telephone and Telegraph Company, Northern California Internal Auditors Conference, San Francisco	Audit Working Papers
22	Paul D. Yager Washington	Ohio State University Institute of Accounting, Columbus	Federal Tax Ruling Procedure
25	John W. Hastings Pittsburgh	Insurance Club of Pittsburgh	Partnership v. Corporation
26	Charles S. Vogan Philadelphia	The Bell Telephone Company of Pennsylvania, Philadelphia (Company Management Meeting)	Scope of L.R.B. & M. Examination of a Bell System Company
27	Charles S. Vogan Philadelphia	The Bell Telephone Company of Pa., (Company Management Meeting), Pittsburgh	Scope of L.R.B. & M. Examination of a Bell System Company
June			
1	William Goodner Birmingham	Charter Life Underwriters, Birmingham Chapter	Pseudo-Corporation
3	Kendall B. Murray Boston	American Association of Hospital Accountants, Inc., Massachusetts Chapter, Dedham	Purchasing and Accounts Payable
3	Maurice B. T. Davies Los Angeles	Systems and Procedures Association of America, San Fernando Valley Chapter	The Role of the Systems Analyst in Reducing Costs

Date	*Speaker*	*Organization*	*Topic*
June			
4	A. R. Jennings New York	North Carolina Association of C.P.A.'s, Annual Meeting, Chapel Hill	Developments at the National Level of Importance to all Certified Public Accountants
10	John J. O'Donnell, Jr. New York	The Middle Atlantic States Accounting Conference, Washington, D. C.	Auditing Problems Under Machine Accounting
10	Joseph J. Hyde San Francisco	San Francisco Estate Planning Council	Panel Discussion—Interrelation of Personal and Fiduciary Income Taxes and the Federal Estate Tax and Optional Valuation Date Problem
10	Robert W. Davis Cincinnati	Meeting of National League of Insured Savings Associations, New Orleans	The advantages of an examination of financial statements by Independent Certified Public Accountants
15	Leo V. Tinkham Chicago	Illinois Society of C.P.A.'s annual meeting	Limitations of the auditor's responsibility for the discovery of defalcations
15	Herman Stuetzer, Jr. Boston	Boston Tax Forum	A review of recent developments in business expenses of the self employed and the employed
16	P. L. Defliese New York	Illinois State Society of C.P.A.'s, Chicago	Activities of the Auditing Procedure Comm. of the A.I.C.P.A.
17	Louie M. Bradley Los Angeles	Los Angeles State College, Institute on Government	Adequacy of Governmental Accounting Systems, Internal Controls and Other Fiscal Controls
18	William G. Casey Philadelphia	N.A.A., Reading Chapter	Direct Cost for Profit Planning
23	M. E. Richardson New York	Texas Society of C.P.A.'s, annual meeting, San Antonio	Standards of Responsibility in Tax Practice

Notes

INTERNATIONAL FIRM

Mr. S. John Pears, Senior Partner of Cooper Brothers & Co. and Coopers & Lybrand, London, has been elected Vice President of the Institute of Chartered Accountants in England and Wales.

Mr. Eduardo Casillas, a member of the staff of Coopers & Lybrand, Mexico, has recently returned to Mexico City after ten months in the New York office of L.R.B. & M.

Dr. Eberhard W. Spieth, a member of the staff of Coopers & Lybrand, Cologne, Germany, is temporarily attached to the Detroit office.

The address of the Munich office has been changed to Sonnenstrasse 13/V, Aufgang B, Munich 15.

The 101st office of Coopers & Lybrand was opened in July in Teheran, Iran.

BALTIMORE OFFICE

Mr. A. R. Ransom, Jr. is a member of the Board of Directors and is Program Coordinator of the Systems and Procedures Association for the coming year.

BIRMINGHAM OFFICE

Mr. Ragsdale is serving on the industrial division of the United Appeal of Jefferson County.

The following members of the Birmingham office have successfully completed the C.P.A. examination:

Herbert D. Barbour Frank H. Gafford

BOSTON OFFICE

Mr. Leopold A. Bernstein received the Massachusetts Society of C.P.A.'s Gold Medal Award for the highest achievement in the C.P.A. examination for May, 1958.

Mr. Hunter is serving his ninth term as Treasurer of the Greater Boston Chamber of Commerce.

Mr. Roderick K. Macleod has been re-elected Treasurer of the Second Parish Church of Hingham, Massachusetts.

Mr. James Neely, Jr. is serving as Vice President of the Bay State Chapter of the Systems and Procedures Association. He is also director of membership of the Boston Chapter of the N.A.A.

Mr. Stuetzer has accepted an invitation to serve as Chairman of the State Affairs Committee of the Greater Boston Chamber of Commerce for the coming year.

Mr. James Vanderpol has been granted a C.P.A. certificate.

Annual Outing

The eleventh annual outing was held at the Mayflower Hotel, Manomet Point, Plymouth, Massachusetts on June 12. The program included golf, tennis, soft ball, luncheon at the swimming pool, social hour and dinner at the hotel.

Following dinner the group was welcomed by Mr. Harvey who made an award to Mr. Frank Kane for excellence of performance as master of ceremonies at recent outings. Frank retires next spring with the best wishes of the entire staff.

The L.R.B. & M. golf trophy was awarded this year to Hank Anderson—just why is not quite clear. Other awards in golf went to Dick Tracy, Wally Burgess, Wallie Jamieson, Roscoe Irving, Jim Murray and Ken Murray.

Paul Finnegan won the top tennis award. Other winners were Jim Vanderpol, Don Perry, Mrs. Joe Doolin and Mrs. Rod Macleod.

Soft ball winners were Robbie Robinson, Joe Doolin and Charlie Melchin.

We were pleased to have as guests from other offices: Frank Smith and Ray Ankers from New York; Bill Casey and his wife from Philadelphia; and Don Perry and his wife from San Francisco.

CHICAGO OFFICE

Mr. Clyde B. Absher is Governor of the Chicago Chapter of the Institute of Internal Auditors for the term 1959–60.

Mr. Demars B. Paquin has been elected President of the National Machine Accountants Association for the 1959–60 term.

The following members of the Chicago office have successfully completed the C.P.A. examination:

John J. Argoudelis — William J. Martin

CINCINNATI OFFICE

Mr. Waterfield served as Chairman of the C.P.A.'s Division of the Seminar for Bankers and C.P.A.'s on May 19, sponsored by the Cincinnati Bankers of the Ohio Valley Chapter, Robert Morris

Associates and the Cincinnati Chapter of the Ohio Society of C.P.A.'s.

Mr. Whitman is serving as Treasurer of the Cub Scout Pack No. 20 of the Boy Scouts of America for the year 1959.

The following members of the Cincinnati office have successfully completed the C.P.A. examination:

Emil E. Fleck, Jr. Norman J. Lew
Frank X. Sturm, Jr.

CLEVELAND OFFICE

Mr. John P. Buleza has been elected President and Mr. Robert L. Starks the Vice President of the First C.P.A. Toastmasters of Cleveland.

Mr. Colleran is a member of the Corporate Gifts Division of St. Vincent Charity Hospital Development Fund Campaign, and Director of the Catholic Youth Service Bureau.

Mr. Padgett has been selected for a three-year term as Treasurer of the Garfield Memorial Church.

DALLAS OFFICE

Mr. Arthur is President of the Thomas Rusk Jr. High School Dad's Club of Dallas. At the recent firm outing, he took top honors in the golf competition.

Mr. Welsch is serving as Director of the Hillcrest Estates Association. He participated in the deliberation of the Independent Petroleum Association of America's Tax Study Committee, of which he is a member, and acted as a discussion leader at the 25th Annual Federal Tax Forum of the Mid-Continent Oil and Gas Association at Fort Worth. He also served as scoreboard chairman of the Dallas Women's Open Golf Tournament in April, and won a trophy for low net at the Annual Golf Outing of the Dallas Chapter of the Texas Society of C.P.A.'s.

The following members of the Dallas office have successfully passed the C.P.A. examination:

Robert T. Koester James A. Walker

DETROIT

Mr. Keith A. Carabell has been elected to membership in the Detroit Chapter of the N.A.A.

Mr. McCullough appeared as a witness in the Federal District

Court in Chicago on April 7 in the anti-trust action brought by the Department of Justice against DuPont.

Mr. John Sharland has been elected to membership in the Michigan Association of C.P.A.'s.

The following members of the Detroit office have successfully completed the C.P.A. or Certificate or Examination requirements:

John Kelly	C. P. A.
Lloyd A. Schwartz	C. P. A.
Richard W. Berkau	C. of E.
Robert G. Ellis	C. of E.
E. Patrick Fox	C. of E.
Niles K. Hill	C. of E.
Joseph S. Kutas	C. of E.
Elwin C. Meyers	C. of E.
Roger H. Willoughby	C. of E.

HARTFORD OFFICE

Mr. Richard L. Denney has been appointed for a two-year term as one of two auditors of the Hartford Chapter of the N.A.A., and has been granted a C.P.A. certificate by reciprocity in Connecticut.

Mr. Stanley N. Roseberry, Jr. has been awarded the C.P.A. certificate.

HOUSTON OFFICE

Mr. Crouch has completed a two-year term as a member of the Executive Committee of the Southern States Accounting Conference.

LOS ANGELES OFFICE

Mr. Edwin B. Cassidy attended the 53rd Annual Conference of the Municipal Finance Officers Association in Montreal.

Mr. James M. Nicolai has been appointed to the Board of Directors of the Los Angeles Junior Chamber of Commerce.

Mr. Robert S. Straith received the Elijah Watt Sells award for grades obtained on the November, 1958, C.P.A. examination. He has also been elected Employment and Membership Chairman of the San Fernando Valley Chapter of the Systems and Procedures Association of America.

Mr. J. Walker Voris has been elected President of the Los Angeles Chapter of the Systems and Procedures Association

of America and Chairman of that organization's Executive Council of Southern California.

The following members of the Los Angeles office staff were successful in completing requirements for the C.P.A. certificate at the November examination:

Richard G. Johnson
Carl J. Sohn
Robert S. Straith

LOUISVILLE OFFICE

Mr. Thomas K. Baer has been elected Treasurer of the Louisville Junior Chamber of Commerce and, at the June meeting, he was recognized as one of the Ten Outstanding Jaycees of the Louisville Chapter for the year 1958-59.

Mr. Glore is serving as Chairman of the Evaluation Committee for the Children's Hospital Campaign.

NEW YORK OFFICE

Mr. Raymond G. Ankers was elected a member of the Board of Governors of The Accountants Club for a term ending 1961.

Mr. Bardes is a member for one year of the Members' Council of the Commerce and Industry Association of New York.

Mr. Bell was elected a member of the Board of Governors of The Accountants Club for a term ending 1962.

Mr. Burke has been appointed Program Director of the New York Chapter of the N.A.A.

Mr. Fernald was honored with a special citation and medal by the Society for the Libraries of New York University.

Mr. Carl Forcheskie has been re-elected President of Brush Park Heights Civic Association, Mount Vernon, N. Y.

Mr. Jennings has been elected a member for three years beginning September 1, 1959 of the Accounting Principles Board of the A.I.C.P.A. He has also been elected a member of the Pension Committee.

Mr. Louis C. Moscarello, Chairman of the Retail Accounting Committee of the New York State Society of C.P.A.'s, presided at a technical meeting at the Barbizon Plaza Hotel on May 20.

Mr. Richardson was presented with the "Honored Fellow in Accounting Award of 1959" by the College of Business Administration of Long Island University, at the annual dinner of the College at the Hotel Granada.

Mr. Schaffer was reappointed Treasurer for 1959-60 of the Community Chest of Montclair. He was also re-elected as a Director and appointed Chairman of the Finance Committee and a member of the Office Personnel and Budget Committee.

Annual Outing

The New York office held its annual outing on June 8 at the Montclair Golf Club, Montclair, New Jersey. It was attended by about 250 members of the staff and guests from our Hartford office.

About half of those present represented themselves to be golfers, to the consternation of observant caddies and the scorekeepers who were working without benefit of data processing equipment. Scores ranging from 78 to 197 give an indication of the cosmopolitan nature of this event.

In accordance with his usual custom, George McCann won the tennis tournament. Stuart Jennings was runner-up. Ted Tarver again won the swimming laurels. The Committee is considering the many suggestions it has received for handicapping these contestants in future events.

The softball game and the horseshoe pitching contests began early and continued throughout the day. Messrs. Leng and Fish took the honors in the bridge tournament.

As master of ceremonies, Mr. Jennings made appropriate observations in awarding the trophies to contestants who were designated by the Committee as the winners. Many exceptions were taken to the designations but the Committee invoked its unwritten law that its determinations were final and binding.

Gold watches commemorating the completion of twenty-five years of association with the firm were presented to Gilbert R. Byrne, Irving H. Worden and Joseph A. Young.

After dinner, bridge and poker enthusiasts continued their operations until requested by the management to bring to a close the activities of a thoroughly enjoyable day.

PHILADELPHIA OFFICE

Mr. Richard T. Farrand was elected to membership in the Penn Athletic Club.

Mr. Hewitt acted as Chairman of a panel session on "Depreciation" at the N.A.A. 40th International Accounting Conference in New York City on June 21–24.

Mr. Meredith was elected to membership in the Philadelphia Country Club at Gladwyne, Pa.

Mr. John L. Moneta is serving as a member of the Finance Committee of the Philadelphia Country Club.

Mr. Ross was honored by The Franklin Institute for fifty years of continuous membership. He was presented with an inscribed gold key and gold membership card.

Mr. Taylor is Chairman of the Finance Committee of the Pennsylvania State Advisory Conference of The Salvation Army. He is also a member of the new Advisory Committee on Promotional Development of the A.I.C.P.A.

Annual Outing

The Philadelphia Office Annual Stag Outing at Tavistock Country Club, Haddonfield, N. J., on June 8th, is now history. It just so happens that "history" and culture were the theme of the evening's entertainment.

Mr. Harry H. Steinmeyer, who will retire September 30, 1959, served as M.C. and surpassed his excellent performance of 1951. The professional entertainment consisting of a comedian and a female barbershop quartet (the culture) were very good, but anti-climactic to the M.C.'s "history" lesson.

Mr. Steinmeyer traced the history of William Penn and Philadelphia from the time Penn sailed up the Delaware River in "1492" to Philadelphia where he received a tumultuous ovation from a great number of people, some of whom were Indians; Penn's return to England for peace and quiet; his early inventions, including the first "alarm" clock; Penn's part in renaming one of the local "mutual" life insurance companies, and the reason why a statue of Penn today rests on Philadelphia's City Hall Tower.

Mr. Steinmeyer was given a standing vote of thanks and the best wishes of the group for a long, happy life after retirement.

The usual prizes were awarded for outstanding (and mediocre) performances in golf, softball and other athletic activities, and, in some instances, for no performance at all. Principal prize winners included:

Norman K. Allen	—The Clarence R. Haas Trophy for low net golf score
William J. Redmond	—The Adam Averell Ross Golf Memorial Trophy—match play by the eight players with lowest gross scores at the 1958 outing
Burton L. Tacke	—Golf balls for low gross golf score
William P. McGann	—Season pass for two to the Phillies' games just for being present at the Outing.

Mr. Reber E. Horne received a gold watch to honor him in joining the grand body of employees who have completed twenty-five years of service with the Firm.

From all appearances and utterances, the more than 150 staff and office personnel, together with some 25 guest alumni now with clients or retired, had a most enjoyable time.

PITTSBURGH OFFICE

Mr. James E. Gelbert served as Chairman of the Planning Committee of the Pennsylvania State University's 13th Annual Tax Seminar held at University Park, May 18–20.

ROCKFORD OFFICE

Mr. Burton E. Lindgren received an Elijah Watt Sells award from the A.I.C.P.A. for his grades in the November, 1958 examination.

ST. LOUIS OFFICE

Mr. John D. Mains appeared as a judge on an educational television program sponsored by the Internal Revenue Service.

Mr. Carlin P. Oliphant has been elected Secretary of the St. Louis Chapter of the Systems and Procedures Association for the 1959–60 fiscal year.

Mr. Snowden has been appointed to a Citizen's Committee to study the Merchants' and Manufacturers' License Tax of the City of St. Louis.

SAN FRANCISCO OFFICE

Mr. Kendal I. Dazey is serving as President for 1959–60 of the San Francisco Chapter of the Systems and Procedures Association.

Mr. Giles is Consulting Professor of Public Accounting at Stanford University Graduate School of Business for the academic year 1959–60.

Mr. Huss is serving as a member of the San Francisco Chamber of Commerce tax section.

Mr. Fredric T. Wunderli has successfully completed the C.P.A. examination.

TULSA OFFICE

Mr. L. E. Hoffman is teaching an accounting course at the Downtown Division of the University of Tulsa.

Mr. P. S. Lovoi has been elected Treasurer of the Men's Club of St. Mary's Church.

Mr. McKibben is serving as Vice Chairman of the 1959 Budget Committee and Campaign Committee of the Tulsa Community Chest.

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CLEVELAND 14	Union Commerce Building
DALLAS 2	First National Bank Building
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NEW YORK 4	Two Broadway
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PITTSBURGH 22	Oliver Building
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